Docket:	:	A.09-07-001
Exhibit Number	:	
Commissioner	:	John Bohn
Admin. Law Judge	:	Jeffrey O' Donnell
DRA Project Mgr.	:	Patrick Hoglund

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

REPORT ON THE RESULTS OF OPERATIONS IN OROVILLE DISTRICT OF CALIFORNIA WATER SERVICE COMPANY

Test Year 2011 and
Escalation Years 2012 and 2013
Application 09-07-001

For authority to increase water rates located in its
Oroville District serving portions of the
City of Oroville and vicinity, Butte County.

San Francisco, California
February 10, 2010

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MEMORANDUM

The Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") prepared this Report in California Water Service Company's ("CWS") rate case proceeding A.09-07-001. In this docket, the Applicant requests an order for authorization to increase rates charged for water service by $1,027,600 or 29.8 % in Test year 2011; by $881,200 or 22.5% in Escalation year 2012; and by $881,200 or 18.4% in Escalation year 2013 in its Oroville District service area. The applicant requests adoption of a rate of return of 8.58% from D. 09-05-019. DRA presents its analysis and recommendations associated with the Applicant's request in this Report.

Patrick Hoglund serves as DRA's project coordinator in this review, and is responsible for the overall coordination in the preparation of this report. Appendix A contains witnesses' prepared qualifications and testimony.

DRA's reports on payroll, conservation expenses and special requests are included under separate Reports.

DRA's Legal Counsels for this case are Selina Shek, Allison Brown, and Hien Vo.

EXECUTIVE SUMMARY

CWS requests increasing rates by 29.8% in Test Year 2011 and 22.5% in Escalation Year 2012, whereas DRA recommends an increase of 15.6% in Test Year 2011 and inflationary increases for the Escalation Years. To avoid rate shock among its customers, CWS requested to phase in the increase of 29.8%, resulting in an increase of 14.1% in the Test Year and defer some of the increase in the later years.

Key Recommendations

DRA recommends that CWS' requested rate of return of 8.58% be adopted in this proceeding.

DRA's recommendations are based on higher sales to customers (Chapter 2), lower estimates of Operation and Maintenance expenses (Chapter 3), lower estimates of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7) and lower Ratebase (Chapter 9).

DRA addresses its recommended treatment of CWS' 30 Special Requests ("SR") in a separate report. That report discusses Special Request #13 regarding rate deferral, or phase in of rates for the Oroville district.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Patrick Hoglund
2	Water Consumption and Operating Revenues	Lisa Bilir Zachary Burt
3	Operations and Maintenance (except Payroll) Expenses	Raymond Yin
4	Administrative & General (except Payroll & Conservation) Expenses	Cleason Willis
5	Taxes Other Than Income	Jerry Oh
6	Income Taxes	Jerry Oh
7	Utility Plant in Service	Joyce Steingass
8	Depreciation Reserve and Depreciation Expense	Joyce Steingass
9	Ratebase N/G multiplier	Joyce Steingass Richard Rauschmeier
10	Customer Service	Toni Canova
11	Rate Design	Lisa Bilir
12	Water Quality	Pat Ma
13	Step Rate Increase	Patrick Hoglund

CHAPTER 1: OVERVIEW AND POLICY

A. INTRODUCTION

This Report sets forth DRA's analysis and recommendations for A. 09-07-001, CWS' general rate increase request for Test Year 2011 and Escalation Years 2012 and 2013.

B. SUMMARY OF RECOMMENDATIONS

Tables 1-1 through 1-3 of the Summary of Earnings compare the results of operations for Test Year 2011 including revenues, expenses, taxes and ratebase.

C. DISCUSSION

CWS requests the total revenues as follows:

Year	Amount of Increase	Percent
2011	$485,377	14.1%
2012	$559,767	14.2%
2013	$638,588	14.2%

CWS estimates that its proposed rates in the Application will produce revenues providing the following returns:

Year	Return on Rate Base	Return on Equity
2011	8.58%	10.2%
2012	8.58%	10.2%
2013	8.58%	10.2%

D. CONCLUSION

DRA recommends a revenue increase for the Test Year as follows (Escalation Years 2012 and 2013 are covered in Chapter 13):

Year	Amount of Increase	Percent
2011	$536,100	15.6%

D.07-12-055 authorized the last general rate increase for CWS in A. 06-07-020, resulting in a rate of return on rate base of 8.66% in 2008-2009. Present Rates in this report are based on Advice Letter No.1895, which became effective January 20, 2009, as authorized by D. 08-07-008.

A comparison of DRA and CWS' estimates for rate of return on rate base for the Test Year 2011 at present and the utility's proposed rates is shown below:

RATE OF RETURN

	DRA	CWS	Diff
Present Rates	4.26%	1.72%	-2.54%
Proposed Rates	8.17%	8.58%	.41%

TABLE 1-1

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	3,439.9	3,447.0	7.1	0.2%
Operating expenses:				
Operation & Maintenance	1,377.3	1,579.4	202.2	14.7%
Administrative & General	566.6	622.5	55.9	9.9%
G. O. Prorated Expense	506.6	682.7	176.1	34.8%
Dep'n & Amortization	448.1	466.3	18.2	4.1%
Taxes other than income	121.6	135.5	13.9	11.4%
State Corp. Franchise Tax	13.1	(53.1)	(66.2)	-506.6%
Federal Income Tax	82.4	(141.7)	(224.1)	-272.0%
Total operating exp.	3,115.6	3,291.6	176.0	5.6%
Net operating revenue	324.3	155.4	(168.9)	-52.1%
Rate base	7,613.9	9,046.9	1,433.0	18.8%
1 Return on rate base	4.26%	1.72%	-2.54%	-59.7%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA Amount	%
	(Thousands of $)			
Operating revenues	3,925.2	4,474.6	549.4	14.0%
Operating expenses:				
Operation & Maintenance	1,380.7	1,586.8	206.0	14.9%
Administrative & General	566.6	622.5	55.9	9.9%
G. O. Prorated Expense	506.6	682.7	176.1	34.8%
Dep'n & Amortization	448.1	466.3	18.2	4.1%
Taxes other than income	121.6	135.5	13.9	11.4%
State Corp. Franchise Tax	55.7	37.1	(18.5)	-33.3%
Federal Income Tax	223.8	167.5	(56.3)	-25.2%
Total operating exp.	3,303.1	3,698.4	395.3	12.0%
Net operating revenue	622.1	776.2	154.1	24.8%
Rate base	7,613.9	9,046.9	1,433.0	18.8%
Return on rate base	8.17%	8.58%	0.41%	5.0%

TABLE 1-3

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

SUMMARY OF EARNINGS

TEST YEAR 2011

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
	(Thousands of $)			
Operating revenues	3,439.9	3,976.0	536.1	15.6%
Operating expenses:				
Operation & Maintenance	1,377.3	1,381.1	3.8	0.3%
Administrative & General	566.6	566.6	0.0	0.0%
G. O. Prorated Expense	506.6	506.6	0.0	0.0%
Dep'n & Amortization	448.1	448.1	0.0	0.0%
Taxes other than income	121.6	121.6	0.0	0.0%
State Corp. Franchise Tax	13.1	60.1	47.1	359.9%
Federal Income Tax	82.4	238.6	156.2	189.6%
Total operating exp.	3,115.6	3,322.7	207.1	6.6%
Net operating revenue	324.3	653.3	329.0	101.4%
Rate base	7,613.9	7,613.9	0.0	0.0%
1 Return on rate base	4.26%	8.58%	4.32%	101.4%

CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations regarding the forecasted number of customers, water sales and operating revenues for CWS' Oroville district. Oroville had an average of 3,582 service connections in 2008; the Oroville district includes the City of Oroville and vicinity, in Butte County. DRA reviewed CWS' data responses, testimony, application, and workpapers before formulating its own estimates.

B. SUMMARY OF RECOMMENDATIONS

DRA adhered to the methods outlined in the Rate Case Plan ("RCP") in DRA's analysis of sales forecast and revenues. Whereas, CWS' sales forecast method differed from the RCP. Appendix A to Chapter 2 for DRA's Bakersfield report provides a detailed explanation of DRA's sales forecast and revenue methods. The Commission should uphold the methods outlined in the RCP by adopting DRA's recommendations presented in this report.

1) Average Active Service Connections

CWS proposes to forecast the number of customers using the five-year (2004-2008) average change in customers by customer class for all customer classes. DRA accepts CWS' forecasted number of customers for all customer classes, except for the Residential class. DRA proposes that the average change in the number of customers for both flat and metered customers be taken into account when forecasting the number of customers for the Residential customer class.

2) Metered Sales and Supply

The Commission should require CWS to use the method proposed by DRA for residential and business customers, in accordance with the RCP, going forward, and should also adopt DRA's estimates for metered sales and supply in

this case. Table 2-1 at the end of this chapter illustrates DRA and CWS' proposed sales per average customer for each customer class. DRA uses the same general methodology as CWS to estimate multiple regression equations in accordance with the RCP and the "New Committee Method" ("NCM"). As is outlined in the NCM, rain, temperature and time are included in the regression model, where possible. The primary difference between DRA and CWS' forecasts are that CWS used the regression equations to calculate weather-adjusted recorded sales from 2008 and used this as its estimated sales for 2011. DRA used the regression equations to calculate forecasted sales for 2011 and 2012, based on the 30-year monthly average rain and temperature in accordance with the RCP.[1]

3) Operating Revenues

The Commission should adopt DRA's estimates for operating revenues. DRA uses the same method as CWS to calculate operating revenues, although DRA presents the operating revenues differently for illustrative purposes (see Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. for the complete explanation).

4) Unaccounted for Water

CWS assumes 8% unaccounted for water in Oroville because the large number of flat rate customers makes it difficult to estimate unaccounted for water. CWS' assumption of 8% unaccounted for water is reasonable.

C. DISCUSSION

1) Average Active Service Connections

Customer growth is the forecasted growth of a customer base in a given area. CWS and DRA use customer growth to project revenues for 2011-2012. The RCP, adopted in D.07-05-062 requires the number of customers to be forecast

[1] D.07-05-062, Appendix A – Rate Case Plan and Minimum Data Requirements for Class A Water Utilities General Rate Applications, p. A-23, footnote 4, (B) "Use 30-year average for forecast values for temperature and rain"

using a five-year average of the change in the number of customers by customer class, unless an unusual event occurs, in which case an adjustment to the five-year average may be made.[2] Table 2-2 and 2-3 at the end of this chapter summarize DRA and CWS' proposed the average number of customers for each customer class in 2011 and 2012, respectively.

a. Residential

CWS forecasts average number of residential customers based upon the rate that CWS proposes to convert flat rate residential customers to metered customers (33 per year during 2009-2012) added to the five-year average of the change in the number of customers. DRA recommends forecasting average number of residential customers using CWS' proposed rate of converting flat rate residential customers to metered customers added to the five-year (2004-2008) average of the change in the number of residential (flat and metered) customers.[3] DRA assumes no new flat rate customers will be added to the flat rate residential customer class.

DRA's proposed method resulted in the following number of customers:

Table 2-a: Residential metered average number of customers

	CWS	DRA
2011	2,477	2,410
2012	2,528	2,434

For flat rate residential customers, CWS used the end of year ("EOY") numbers of customers in the "Average number of customers" column.[4] CWS used

[2] D.07-05-062, Appendix A: RCP, p. A-23, footnote 4.

[3] The RCP states that the number of customers should be forecast using a five-year average of the change in the number of customers by customer class, unless an unusual event occurs (See Decision 07-05-062, Appendix A, pg. A-23, footnote 4).

[4] See "Oroville Exp July 2009," WP 4-B3, cells D28-D31 and B41-E45

this EOY estimate to calculate revenues. However, for all the other customer classes, CWS uses the average number of customers to calculate revenues. The average number of customers should be used to calculate revenues for residential flat rate customers also; DRA corrected this inconsistency. These changes to the calculation for forecasted number of flat-rate customers lead to the following recommended number of customers:

Table 2-b: Residential flat rate average number of customers

	CWS	DRA
2011	134	151
2012	101	118

b. Business, Multifamily, Public Authority, Industrial, and Other

For Business, Multifamily, Public Authority, Industrial, and Other customer classes, CWS proposes to forecast the number of customers using the five-year average of the change in the number of customers by customer class. DRA agrees.

2) Metered Sales and Supply

Table 2-4 and 2-5 at the end of this chapter summarize DRA and CWS' proposed metered and flat rate sales in Oroville for each customer class in 2011 and 2012, respectively.[5] DRA removed CWS' 1.5% conservation adjustment to consumption in 2012; the reasons for doing this are described in Appendix A to Chapter 2 of DRA's Bakersfield report, section A. 4.

a. Residential metered

DRA accepts CWS' use of the modified unconstrained regression model, with the exception of the inclusion of an autoregressive term. However, DRA

[5] If DRA's sales forecast combined with DRA's other recommendations leads to higher bill increases than CWS presented in its notices to customers, DRA recommends that the total bill

(continued on next page)

used the regression equation to forecast sales, while CWS used the regression model to weather-normalize 2008 recorded sales. Workpaper Revenue-001 shows the regression model that DRA and CWS chose. The following table summarizes DRA and CWS' recommendations:

Table 2-c: forecasted sales (ccf[6]/service)

	CWS	DRA	% difference
2011	188.7	190.8	1.1%
2012	185.8	190.8	2.7%

b. Business

DRA accepts CWS' use of the modified unconstrained regression model, with the exception of the inclusion of an autoregressive term. However, DRA used the regression equation to forecast sales, while CWS used the regression model to weather-normalize 2008 recorded sales. Workpaper Revenue-001 shows the regression model that DRA and CWS chose. The following table summarizes DRA and CWS' recommendations:

Table 2-d: forecasted sales (ccf/service)

	CWS	DRA	% difference
2011	605.5	618.6	2.2%
2012	596.4	618.6	3.7%

c. Multifamily

Multifamily customers accounted for 3.89%[7] of metered sales for the Oroville district in 2008. CWS proposes the use of the unconstrained model with several monthly temperature variables removed. DRA ruled out the use of the regression models for this customer class because of poor statistics calculated in the unconstrained and constrained model. DRA proposes to forecast sales using

(continued from previous page)
increases should be capped at CWS' proposed levels.

[6] 100 cubic feet

[7] Calculated from metered sales in CWS' Table 4-C

the five-year average of sales in this customer class (4,198.0 ccf/service). This recommendation leads to an overall difference between DRA and CWS of 5.4% for the multifamily customer class.

Table 2-e: forecasted sales (ccf/service)

	CWS	DRA	% difference
2011	3,983.1	4,198.0	5.4%
2012	3,923.4	4,198.0	7.0%

d. Industrial

Industrial customers accounted for 13.14%[8] of metered sales for the Oroville district in 2008. CWS proposes the use of the unconstrained model with several monthly temperature variables removed. DRA ruled out the use of the regression models for this customer class because of poor statistics calculated in the unconstrained and constrained model. DRA proposes to forecast sales using the five-year average of sales in this customer class (183 Kccf for the whole customer class). This recommendation leads to an overall difference between DRA and CWS of 1.6% for the industrial customer class in 2011.

Table 2-f: forecasted sales (Kccf / Industrial customer class)[9]

	CWS	DRA	% difference
2011	180.1	182.9	1.6%
2012	177.4	182.9	3.2%

e. Public Authority

Public Authority customers in the Oroville district accounted for 10.11% of metered sales in 2008. CWS proposes the use of the unconstrained model with several monthly temperature variables removed. DRA ruled out the use of the

[8] Calculated from data in CWS' Table 4-C.

[9] The numbers in Table 2-f differ from the numbers in Table 2-1 because Table 2-f illustrates sales for the entire customer class, while Table 2-1 illustrates sales per average customer within each customer class. DRA and CWS forecasted sales for Industrial, Public Authority, and Other customer classes for the entire customer class, rather than for an average customer.

regression models for this customer class because of poor statistics calculated in the unconstrained and constrained model. To conservatively estimate the sales for this class, DRA recommends the use of the five-year average sales for the Public Authority customer class. Table 2-h below compares DRA and CWS' forecasted sales for the Public Authority customer class.

Table 2-g: forecasted sales (Kccf)[10]

	CWS	DRA	% difference
2011	138.7	134.2	-3.2%
2012	136.6	134.2	-1.8%

f. Other

DRA agrees with CWS' proposed method to use the five-year average sales for the Other customer class.

g. Irrigation

CWS proposes forecasting sales using 2008 sales for this customer category. However, this method is unsupported and DRA proposes using the five-year (2004-2008) average to forecast future sales.

3) Operating Revenue

Tables 2-6 and 2-7 at the end of this chapter summarize DRA and CWS' forecasted operating revenue at present rates in 2011, at CWS proposed rates in 2011 and at present rates in 2012, respectively.

a. Residential metered

CWS calculates operating revenue for metered residential customers by (1) taking the sum of estimated quantity revenues calculated for each meter size, for

[10] The numbers in Table 2-g differ from the numbers in Table 2-1 because Table 2-g illustrates sales for the entire customer class, while Table 2-1 illustrates sales per average customer within each customer class. DRA and CWS forecasted sales for Industrial, Public Authority, and Other customer classes for the entire customer class, rather than for an average customer.

each month and for each tier of the increasing block rate design based on three-year average sales patterns and (2) adding this to the estimated service charge revenues, calculated by taking the average number of customers each year and multiplying it by the service charge. CWS' method is outlined in detail in Appendix A of Chapter 2 in DRA's Bakersfield Report. DRA does not recommend any changes to this method.

b. Residential flat rate

CWS calculates operating revenue for flat rate residential customers using the estimated EOY number of customers for 2011 and 2012 multiplied by the flat rate, since the flat rate customers do not have tiered rates or other quantity rates. However, the appropriate number of customers to use to calculate operating revenues is the average number of customers, rather than the EOY number of customers. The Commission should adopt DRA's operating revenues because they are calculated using the average number of customers rather than the EOY number of customers.

c. Business, Multifamily, Public Authority, Industrial and Other

CWS calculates operating revenues for business, multifamily, public authority, industrial, and other customers by (1) taking the sum of estimated quantity revenues for each meter size, for each month based on three-year average sales patterns and (2) adding the quantity revenues to the estimated service charge revenues, calculated by multiplying the forecasted average number of customers by the meter charges. CWS' method is outlined in detail in Appendix A to Chapter 2 of DRA's Bakersfield Report. DRA does not recommend any changes to this method.

4) Unaccounted for Water

CWS has a significant percentage of un-metered connections in Oroville and forecasts a conversion of 33 flat to metered services per year during 2009-2012. Regardless of the rate of conversion, there is no question that there are a substantial number of flat-rate residential customers. For this reason, an exact calculation of unaccounted for water is not possible. For this general rate case, CWS assumes 8% unaccounted for water. DRA agrees with CWS' methodology and finds this figure reasonable.

D. CONCLUSION

1) Average Active Service Connections

The Commission should adopt DRA's recommended number of service connections.

2) Metered Sales and Supply

DRA recommends adherence to the RCP and NCM for forecasting metered sales and supply and recommends that the Commission adopt DRA's forecasted sales estimates and require CWS to use the method proposed by DRA for residential and business customers going forward.

3) Operating Revenues

DRA accepts CWS' method for calculating operating revenues, with the following modifications for illustrative purposes: for all customer classes, DRA used the present rates given by CWS at the time it filed the GRC application to illustrate Operating Revenues at Present Rates for 2011 and 2012. Also, DRA used the proposed rates from CWS' GRC application filed in July 2009 to calculate Operating Revenues at Proposed Rates. Appendix A to Chapter 2 for DRA's Bakersfield report in section B. 1. and B. 2. provides a detailed explanation.

4) Unaccounted for Water

DRA does not oppose CWS' assumption of 8% unaccounted for water, given the large portion of flat rate customers in this district.

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(CCF/CONN./YR)			
Residential	190.8	188.7	(2.1)	-1.1%
Business	614.6	605.5	(9.1)	-1.5%
Multiple Family	4,198.0	3,983.1	(214.9)	-5.1%
Industrial	11,437.5	11,253.9	(183.6)	0.0%
Public Authority	958.6	990.7	32.1	3.4%
Other	209.1	208.8	(0.3)	-0.1%
Irrigation	18,290.0	18,297.0	7.0	0.0%
Res. Flat Rate	175.4	175.4	(0.1)	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	2,410	2,477	67	2.8%
Business	736	736	0	0.0%
Multiple Family	14	14	0	0.0%
Industrial	16	16	0	0.0%
Public Authority	140	140	0	0.0%
Other	11	11	0	0.0%
Irrigation	10	10	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	3,337	3,404	67	2.0%
Flat Rate Connections				
Residential Flat	151	134	(17)	-11.3%
Private Fire Protection	92	92	0	0.0%
Public Fire Protection	9	9	0	0.0%
Total flat rate connections	252	235	(17)	-6.7%
Total Active Connections				
Include Fire Protection	3,589	3,639	50	1.4%
Exclude Fire Protection	3,488	3,538	50	1.4%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
Metered Connections				
Residential	2,434	2,528	94	3.9%
Business	742	742	0	0.0%
Multiple Family	14	14	0	0.0%
Industrial	16	16	0	0.0%
Public Authority	145	145	0	0.0%
Other	12	12	0	0.0%
Irrigation	10	10	0	0.0%
Reclaimed	0	0	0	0.0%
Total metered connections	3,373	3,467	94	2.8%
Flat Rate Connections				
Residential Flat	118	101	(17)	-14.4%
Private Fire Protection	94	94	0	0.0%
Public Fire Protection	9	9	0	0.0%
Total flat rate connections	221	204	(17)	-7.7%
Total Active Connections				
Include Fire Protection	3,594	3,671	77	2.1%
Exclude Fire Protection	3,491	3,568	77	2.2%

TABLE 2-4

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	459.8	467.4	7.7	1.7%
Business	452.3	445.6	(6.7)	-1.5%
Multiple Family	58.8	55.8	(3.0)	-5.1%
Industrial	183.0	180.1	(2.9)	-1.6%
Public Authority	134.2	138.7	4.5	3.4%
Other	2.3	2.3	(0.0)	-0.1%
Irrigation	182.9	183.0	0.1	0.0%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	1,473.3	1,472.8	(0.4)	0.0%
Flat Rate Sales				
Residential	26.5	23.5	(3.0)	-11.3%
Unaccounted For Water 8.00%	130.4	130.1	(0.3)	-0.2%
Total delivered	1,630.2	1,626.4	(3.7)	-0.2%
Supply				
Company Wells	308.5	308.5	0.0	0.0%
Leased Wells	68.7	68.7	0.0	0.0%
Purchases - raw water	1,252.9	1,249.2	(3.7)	-0.3%
Treatment Plant Production	1,070.0	1,066.2	(3.8)	-0.4%
Total production	1,630.1	1,626.4	(3.7)	-0.2%

1

TABLE 2-5

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(KCCF/YEAR)			
Metered Sales				
Residential	464.3	469.9	5.5	1.2%
Business	456.0	442.5	-13.5	-3.0%
Multiple Family	58.8	54.9	-3.8	-6.5%
Industrial	183.0	177.4	-5.6	-3.1%
Public Authority	134.2	136.6	2.4	1.8%
Other	2.3	2.3	0.0	-1.6%
Irrigation	182.9	180.2	-2.7	-1.5%
Reclaimed	0.0	0.0	0.0	0.0%
Total metered sales	1,481.5	1,463.8	(17.7)	-1.2%
Flat Rate Sales				
Residential	20.6	17.7	(2.9)	-14.1%
Unaccounted For Water 8.00%	130.6	128.8	(1.8)	-1.4%
Total delivered	1,632.8	1,610.3	(22.4)	-1.4%
Supply				
Company Wells	308.5	308.5	0.0	0.0%
Leased Wells	68.7	68.7	0.0	0.0%
Pruchases - raw water	1,255.5	1,233.1	(22.4)	-1.8%
Treatment Plant Production	1,072.6	1,052.9	(19.7)	-1.8%
Total production	1,632.7	1,610.3	(22.4)	-1.4%

1

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

OPERATING REVENUES

TEST YEAR 2011

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	683.0	694.4	11.4	1.7%
Business	659.2	649.5	(9.7)	-1.5%
Multiple Family	85.7	81.3	(4.4)	-5.1%
Industrial	264.6	260.4	(4.2)	-1.6%
Public Authority	195.6	202.1	6.5	3.3%
Other	2.9	2.9	0.0	0.0%
Irrigation	16.0	16.0	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	1,907.0	1,906.6	(0.4)	0.0%
Non-WRAM Revenues				
Service Charges	1,324.5	1,345.6	21.1	1.6%
Residential Flat	122.4	108.9	(13.5)	-11.0%
Private Fire Protection	46.1	46.1	0.0	0.0%
Public Fire Protection	3.9	3.9	0.0	0.0%
Other	36.0	36.0	0.0	0.0%
Total Flat Rate	1,532.9	1,540.5	7.6	0.5%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	3,439.9	3,447.0	7.1	0.2%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

OPERATING REVENUES

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
WRAM Revenues				
Residential	850.5	864.7	14.2	1.7%
Business	748.7	737.6	(11.1)	-1.5%
Multiple Family	97.3	92.3	(5.0)	-5.1%
Industrial	300.8	296.0	(4.8)	-1.6%
Public Authority	222.1	229.6	7.5	3.4%
Other	3.3	3.3	0.0	0.0%
Irrigation	22.5	22.5	0.0	0.0%
Recycled	0.0	0.0	0.0	0.0%
Total General Metered	2,245.2	2,245.9	0.7	0.0%
Non-WRAM Revenues				
Service Charges	1,445.6	1,467.7	22.1	1.5%
Residential Flat	139.7	124.2	(15.5)	-11.1%
Private Fire Protection	49.7	49.7	0.0	0.0%
Public Fire Protection	4.2	4.2	0.0	0.0%
Other	40.8	40.8	0.0	0.0%
Total Flat Rate	1680.0	1686.5	6.5	0.4%
Deferred Revenues	0.0	0.0	0.0	0.0%
Total revenues	3,925.2	3,932.4	7.2	0.2%

CHAPTER 3: OPERATIONS AND MAINTENANCE EXPENSES

A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on Operation and Maintenance ("O&M") expenses in the Oroville District of California Water Service Company ("CWS") for Test Year 2011. Table 3-A shows a comparison of total expense estimates at present rates for Test Year.

Table 3-A: Comparison of Total O&M Expense Estimates

Test Year 2011			
Items	DRA	CWS	CWS Exceeds DRA
O&M Expenses	$1,377,300	$1,579,400	$202,200 or 14.7%

B. SUMMARY OF RECOMMENDATIONS

DRA's estimate for Total O&M expenses for Test Year 2011 is $1,377,300. CWS' Test Year 2011 estimate is $1,579,400. CWS' estimate exceeds DRA's by $202,200, or 14.7%. DRA recommends that the Commission adopts its O&M expense estimates.

C. DISCUSSION

DRA conducted an independent analysis of CWS' workpapers and methods of estimating O&M Expenses for Test Year 2011. CWS uses a five-year average of historical expenses adjusted for inflation as the basis for projecting the Test Year 2011 with the exception of Purchased Water, Purchased Chemicals, Purchased Power, Postage, and Transportation.

DRA utilizes multiple regression analyses and other methods including last recorded year (2008) data adjusted for inflation and a five-year (2004-2008)

average of historical expenses adjusted for inflation to assess the reasonableness of CWS' estimates.

Both DRA and CWS apply the various escalation factors, published by the DRA Energy Cost of Service Branch ("ECOS"), dated May 31, 2009, to develop the level of expenses. Table 3-1 summarizes DRA's recommended O&M expenses and compares them to CWS' requests for Test Year 2011. Each expense item listed is discussed below.

1) OPERATION EXPENSES

(a) PURCHASED WATER

CWS estimates Purchased Water in Test Year 2011 to be $184,100. CWS' Purchased Water expenses consist of two components: (i) the fixed-price water purchase contract with PG&E and (ii) the water usage charge, which is calculated by multiplying the quantity of contracted Purchased Water by the usage rate that was specified by Butte County. After reviewing CWS' supporting documents, DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(b) PURCHASED POWER

Purchased Power is the cost of electricity from Pacific Gas and Electric needed to operate a district, including the power used in pumping and delivering water. Estimating Purchased Power expenses is a function of (a) the estimated production and (b) the estimated cost per kilowatt hour ("KWH"), taking into account the historical ratios of electricity used to the amount of water pumped. Therefore, the cost of purchased power may vary with the changes in the estimates of either production, cost per KWH of electricity, or a combination of both.

CWS generally estimates cost per KWH using one of the following two methods – (1) if a linear regression analysis shows a strong relationship between cost per KWH and timing, CWS uses its linear regression forecast methodology of

cost per KWH based on a two-year 12-month rolling average of actual cost per KWH for estimating Purchased Power expenses; otherwise, (2) CWS uses a two-year average of 12-month rolling averages of actual cost per KWH in estimating Purchased Power expenses.

Based on DRA's review of CWS' supporting workpapers, CWS' total power costs consist of purchased power for (i) Well Pumping, (ii) Booster Pumping, (iii) Treatment Plant, and (iv) State Water Project Connection Power Requirements.

CWS calculates the Well Pumping power costs using the forecasted cost per KWH of $0.21515. CWS' methodology for estimating the purchased power costs for booster pumping is acceptable because the regression analysis showed a R^2 of 0.9117, which is representative of the historical trend used in estimating the Purchased Power costs for Well Pumping. DRA accepts CWS' methodology of estimating Purchased Power costs for Well Pumping.

For Booster Pumping purchased power estimates, CWS used the forecasted cost per KWH of $0.15750. CWS' methodology for estimating the purchased power costs for booster pumping is unreasonable because the regression analysis showed a R^2 of only 0.2338, which is not representative of the historical trend and thus should not have been used in estimating the purchased power costs for the Booster Pumping. As such, DRA computes the cost per KWH for Booster Pumping of $0.15659 using the two year (2004-2005) average of a 12-month rolling averages methodology.

CWS calculates the Treatment Plant power costs using the 2-year (2004-2005) average cost per KWH of $0.14545. CWS does not use the forecast methodology for cost per KWH in estimating the Purchased Power costs for Treatment Plant because its linear regression analysis shows a weak relationship between historical cost per KWH and timing. DRA accepts CWS' methodology of estimating Purchased Power costs for Treatment Plant.

CWS calculates the State Water Project Connection Power Requirements costs using the 2-year (2004-2005) average cost per KWH of $0.15571. CWS does not use the forecast methodology for cost per KWH in estimating the Purchased Power costs for the State Water Project Connection Power Requirements because its linear regression analysis shows a weak relationship between historical cost per KWH and timing. DRA accepts CWS' methodology of estimating Costs per KWH for State Water Project Connection Power Requirements. While reviewing CWS' workpapers for State Water Project Connection Power Requirements, DRA noticed that CWS automatically adds 20% water production to the calculation. In CWS' response, dated November 23, 2009, to DRA's email inquiry, CWS acknowledges that at the time of its projection, CWS estimated additional production volume. However, CWS stated that the additional 20% estimated production volume is no longer valid. Thus, DRA removes the 20% added water production volume in its estimate for Purchased Power costs for the State Water Project Connection Power Requirements.

CWS' Purchased Power estimate is $288,900 in Test Year 2011. Based on the review of CWS' workpapers, DRA estimates the expenses for Purchased Power to be $271,200, resulting in $17,600 less than CWS' estimate. The difference between DRA and CWS estimates is due to differences in water production estimates. DRA recommends that the Commission adopt its estimate.

(c) PURCHASED CHEMICALS

CWS' estimate of Purchased Chemicals expenses is $77,600 in Test Year 2011 based on a four-year (2005-2008) average cost per unit of production adjusted for inflation and the estimated production. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(d) OPERATION PAYROLL

For Operation Payroll expenses, please refer to the Payroll Report.

(e) POSTAGE

CWS' estimate of Postage expenses is $16,100 in Test Year 2011. CWS' postage cost is a function of (a) the 2008's unit cost per customer service or connection, (b) the estimated numbers of connection, and (c) a 4.8% increase in postal first-class rate that was effective May 11, 2009[11], plus inflation. DRA adjusts CWS' estimate by (1) reducing the postal rate increase from 4.80% to 3.17% in May 11, 2009, and (2) excluding the escalation factors from DRA's postage expense estimate. Since CWS primarily utilizes bulk rates (Classes A5, A6, A7, and A8) for its mailings, DRA computed the average bulk rate increase based on reviewing the bulk rates schedule. DRA concludes the average bulk rate increase is 3.17%, which is what DRA uses in its estimates. Also, as future postal rate increases are unknown, an escalation factor should be excluded from the calculation. DRA's estimate of Postage expenses is $14,900 for the Test Year 2011, which is $1,200 less than CWS' estimate. DRA recommends that the Commission adopt its estimate.

(f) OPERATION TRANSPORTATION

According to last year's recorded data ratios, total Transportation expense includes three components: Operation, Maintenance, and Administration and General ("A&G").

CWS' estimate for total Transportation expense is $78,900 in Test Year 2011 based on the last recorded year (2008) costs adjusted for inflation. The total is broken down as $71,100, $7,800, and $0 for Operation, Maintenance, and A&G, respectively. CWS did not include any new vehicle expense in its Transportation expense estimates.

DRA's estimate for total Transportation expense is $61,700 in Test Year 2011 based on the five-year (2004-2008) average adjusted for inflation. The total

[11] According to CWS' General Report, dated July 1, 2009, p25, 'District Postage'

is broken down as $55,600, $6,100, and $0 for Operations, Maintenance, and A&G, respectively. Using a five-year average better reflects CWS' historical trends. DRA recommends that the Commission adopt its estimate.

(g) UNCOLLECTIBLES

An estimate of Uncollectible expenses is a function of (a) the estimated total revenue and (b) a five-year average (when appropriate) of historical uncollectible rates. DRA agrees with CWS' methodology in estimating Uncollectible expenses. CWS' estimate for Uncollectible expenses is $24,700 in Test Year 2011 based on a five-year (2004-2008) average of uncollectible rate of 0.71668%. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(h) SOURCE OF SUPPLY

CWS' estimate for Source of Supply expenses is $8,000 in Test Year 2011 based on a five-year (2004 to 2008) average adjusted for inflation. DRA's estimate for Source of Supply expenses is $3,200 in Test Year 2011 based on the four-year (2005-2008) average adjusted for inflation. DRA excluded the 2004 recorded Source of Supply expenses from its estimates because the expenses in that year were unusually high. Using a four-year average would better reflect CWS' historical trends. DRA recommends that the Commission adopt its estimate.

(i) PUMPING EXPENSES

Pumping expenses include the expenses of waste oil disposal, inspection of storage tanks related to pumping, testing and cleaning pumps and motors including supplies such as lubricants, fuses, gaskets, charts and the like, and power used for pumping.[12] CWS' estimate for Pumping expenses is $8,900 in Test Year 2011

[12] Per CWS' response to DRA data request, RYY-005, Question 5, dated October 19, 2009.

based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(j) WATER TREATMENT

Water Treatment expenses include expenses for operating filter and treatment plants, chlorinating equipment, outside laboratory expenses, laboratory supplies, postage on water samples, water quality notices and advertisements, accrual for DPH fees including system inspections, water treatment operators' tests and certification costs, hazardous material disposal, and environmental handling and reporting.

For Water Treatment expenses, CWS' estimate is $34,100 in Test Year 2011 based on the five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(k) TRANSMISSION AND DISTRIBUTION

Transmission and Distribution ("T&D") expenses include expenses incurred in operating distribution reservoirs and tanks including cleaning and flushing, care of grounds, flushing of mains and services, potholing (digging to verify depth and location of pipelines), corrosion tests, fire flow tests, locating and operating valves and supplies necessary to operate the District's transmission and distribution system. For T&D expenses, CWS' estimate is $19,200 in Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, therefore recommends that the Commission adopt CWS' estimate.

(l) CUSTOMER ACCOUNTING

Customer Accounting expenses include all costs related to customer billing such as bill stock, envelopes, billing inserts (except for conservation), fees paid to

collection agencies and pay stations, bank charges, alarm systems, telephone charges including meter reading communication lines, janitorial services for the commercial office, and other expenses related to billing customers. For Customer Accounting expenses, CWS' estimate is $45,900 for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that CWS' estimate.

(m) CONSERVATION EXPENSES

For Conservation Expenses, please refer to the Conservation Expenses report.

2) MAINTENANCE EXPENSES

(a) MAINTENANCE PAYROLL

For Maintenance Payroll Expenses, please refer to the Payroll report.

(b) MAINTENANCE TRANSPORTATION

For an estimate of Maintenance Transportation expense, please refer to Section (f) of this Chapter.

(c) STORES

CWS estimates Stores expenses to be $6,000 for Test Year 2011 based on a five-year (2004-2008) average adjusted for inflation. DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

(d) CONTRACTED MAINTENANCE

CWS' estimate for Contracted Maintenance expenses is $85,300 in Test Year 2011 based on the five-year (2004-2008) average adjusted for inflation.

DRA concludes that CWS' methodology and estimate are reasonable, and therefore recommends that the Commission adopt CWS' estimate.

D. CONCLUSION

DRA recommends that the Commission adopt its O&M expense estimates.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Operating Revenues	3,439.9	3,447.0		
Uncollectible rate	0.71668%	0.71668%		
Uncollectibles	24.7	24.7	0.1	0.2%
Operation Expenses				
Purchased Water	184.1	184.1	0.0	0.0%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	271.2	288.9	17.7	6.5%
Purchased Chemicals	77.6	77.6	0.0	0.0%
Payroll	455.3	513.0	57.7	12.7%
Postage	14.9	16.1	1.2	8.1%
Transportation	55.6	71.1	15.5	27.9%
Uncollectibles	24.7	24.7	0.1	0.2%
Source of Supply	3.2	8.0	4.8	150.0%
Pumping	8.9	8.9	0.0	0.0%
Water Treatment	34.1	34.1	0.0	0.0%
Transmission & Distribution	19.2	19.2	0.0	0.0%
Customer Accounting	45.9	45.9	0.0	0.0%
Conservation	31.7	128.5	96.8	305.4%
Total Operation Expenses	1,226.4	1,420.0	193.7	15.8%
Maintenance Expenses				
Payroll	53.5	60.3	6.8	12.7%
Transportation	6.1	7.8	1.7	27.9%
Stores	6.0	6.0	0.0	0.0%
Contracted Maintenance	85.3	85.3	0.0	0.0%
Total Maintenance Expense	150.9	159.4	8.5	5.6%
Total O & M Expenses (incl uncoll)	1,377.3	1,579.4	202.2	14.7%
At proposed rates				
Operating Revenues	3,925.2	4,474.6		
Uncollectible rate	0.71668%	0.71668%		
Uncollectibles	28.1	32.1		
Total O & M Expenses (incl uncoll)	1,380.7	1,586.8	206.0	14.9%

CHAPTER 4: ADMINISTRATIVE & GENERAL EXPENSES

A. INTRODUCTION

This Chapter presents DRA's recommended expense levels for California Water Service Company's ("CWS") 2011 Test Year Administrative and General ("A&G") expenses for the Oroville District.

The categories of A&G expenses cover general expenses including Payroll, Transportation Expenses, Rent, Administration Charges Transfer, Workers' Compensation, Nonspecific Expenses, Amortization of Limited Term Investments and Dues and Donations Adjustment. Table 4-1 presents a comparison of total expense estimates for Test Year 2011.

DRA analyzed CWS' exhibits, supporting workpapers, CWS' responses to DRA's data requests, information provided in meetings, phone conversations, emails, and CWS' methods of estimating A&G expenses.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimated total for A&G expenses is $566,600 for Test Year 2011. CWS' estimate for the same period is $622,500, or 9.9% more than DRA's. DRA's estimated total for A&G expenses is $571,500 for 2012. CWS' estimate for the same time period is $637,000, or 11.5% more than DRA's. The difference between the forecasted expense levels of DRA and CWS is the result of: 1) DRA's 2011 Test Year estimates of the various A&G activity expenses; 2) account by account adjustments; 3) different methodologies; and 4) the use of the May 2009 Energy Cost of Service Branch escalation factors memo to derive the estimates as discussed below.

C. DISCUSSION

1) Methodology

DRA conducted an independent analysis of CWS' workpapers and methods of estimating the A&G expenses. DRA analyzed CWS' application and exhibits, supporting workpapers, CWS' data request responses, information provided in meetings, field trips to CWS site locations, telephone conversations and e-mails. In general, DRA uses a five-year (2004-2008) average to derive its A&G expense estimates where it had differences with CWS. DRA also removes unusual expenses recorded in certain years to arrive at a different total than CWS, in particular for Nonspecific Expenses. DRA applies its escalation factors to all A&G accounts.

2) Payroll

For A&G payroll expense, please refer to DRA's Payroll Report.

3) Employee Benefits

There were no methodical differences between DRA and CWS in calculating employee benefits. DRA's estimates for the accounts below are based on (1) total payroll dollars, and (2) total number of employees. CWS' estimates are also a function of these two factors. Per employee unit benefit costs were developed by Milliman[13] and are based on a variety of actuarial assumptions. The underlying assumptions, except for the escalation factors, were accepted by DRA. Any differences are, therefore, attributable to different escalation factors and differing estimates for total company payroll and total General Office and district employees for 2011 and 2012.

[13] Milliman is CWS' Pensions and Benefits actuarial consultants.

DRA recommends the following amounts (thousands of dollars) for Account 795, Pensions and Benefits:

	DRA		CWS	
	2011	**2012**	**2011**	**2012**
Total Account 795	$403.0	$405.3	$443.0	$450.0

All company benefits are accounted for in general operations and allocated to each of the districts using the four-factor method of allocation. In general benefit costs are a function of employee payroll dollars, and/or the number of employees. The following is a breakdown of the sub-accounts included in the total Account 795 Pensions and Benefits:

(a) **Account 7951-1 Retirement Savings Plan**.

CWS provides employees with a 401(k) program and matches 50% of employee contributions up to 8% of payroll or the statutory contribution limit, whichever is less. Therefore, CWS' maximum contribution is 4% of company payroll. However, not all employees participate in the program. Based on actual participation levels, CWS' matching contribution during the last five years, was approximately 3%. This rate was used by CWS to forecast the test year amount, and is in line (or comparable) to those offered by other California utilities.[14]

DRA estimated the test year contribution based on the five-year average contribution percentage of 3%, which was multiplied by DRA's estimate of total company payroll (in 2011 and 2012).

[14] The 3% rate is in line with the 401(k) plans offered by San Jose Water, PG&E, Southern California Edison, and Sempra Energy. See the Milliman analysis, CWS General Report, Tab 12.

(b) **Account 7951-2 Retirement Fund.**

CWS' pension funding estimate is based on an actuarial forecast from Milliman. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees to arrive at the test year's estimate. DRA and CWS' estimates differ because of different escalation factors and different estimates for total employees in the General Office and all districts.

The Milliman forecast is based on certain assumptions such as population growth, payroll changes, and salary adjustments. The Milliman forecast also assumes a long term rate on plan assets of 6.75%, and a discount rate of 5.75% for the years 2011 through 2013. CWS follows FASB[15] Statement of Financial Accounting Standards (SFAS) No. 87, as modified by SFAS 132 and SFAS 158.[16] CWS has followed SFAS 87 since it became effective in 1987. Prior to 1987, CWS pension costs equaled the cash contributions to the pension plan determined in accordance with ERISA.[17] The test year projections are based on Milliman's actuarial valuation as of January 1, 2009 for determining the Net Periodic Benefit Cost under SFAS 87. The underlying pension costs assumptions were accepted by DRA.

DRA was persuaded that CWS had taken appropriate steps to mitigate the ratepayer impact of Plan costs. Further, CWS undertook the following measures to avail itself of the benefits provided under (a) The Pension Protection Act of

[15] Financial Accounting Standards Board.
[16] CWS' response to DRA Data Request JRC-2, Q.7.
[17] Employment Retirement Income Security Act, or Federal law.

2006, (PPA) and (b) The Worker, Retiree and Employer Recovery Act (WRERA) of 2008:[18]

(i) CWS fully complied with PPA and WRERA. CWS modified the actuarial cost method for purposes of determining the minimum funding requirement to the Unit Credit method. CWS also adopted the use of the "3-segment" interest rates (for the 2008 minimum funding requirement) and the "full yield curve" (for the 2009 minimum funding requirement). The actuarial valuations for 2008 and 2009 have shown that the contributions by CWS will satisfy the minimum funding requirements as modified by PPA and WRERA.

(ii) In December 2008, CWS made an election to voluntarily reduce its carryover balance (i.e., pre-PPA credit balance) of $1,537,616 as of January 1, 2008 to $0, so that such amount could be included in its plan assets. This was done in order to improve the plan's funded percentages under PPA. In 2009, CWS elected to use the "full yield curve" to determine the funding target under PPA. This increased the plan's funded percentage for 2009.

(c) **Account 7952- Group Health Insurance.**

CWS administers its own (self-insured) employee health care plan. The cost of health insurance is based on actual claims experience and not outside premium payments. The plans include Medical, Dental and Vision care. Further, the plans are on the PPO model where employees are encouraged to use network health care providers in order to minimize costs. CWS' estimate is based on an actuarial forecast from Milliman and includes employee contributions of $125 per month. The Milliman forecast assumes that overall medical cost inflation will

[18] CWS' response to DRA Data Request JRC-2, Q.1.

continue to be 10% annually for the forecast period.[19] The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and different estimates for total employees in the General Office and all districts. The underlying forecast assumptions were accepted by DRA.

(d) **Account 7952-1 Retiree Group Health Insurance**. CWS administers its own (self-insured) retiree health care plan. Therefore, costs for these plans are based on claims experience, not outside premium payments. The plans are on the PPO model, where employees are encouraged to use network providers in order to minimize costs. Further, retirees pay a monthly premium of $300 per person (a retiree and spouse pay $600 per month). This rate decreases to $144 per person when there is other coverage such as Medicare.

The retiree plan is funded in advance in accordance with SFAS 106, which requires that annual funding of the plan be based on an actuarial analysis of the expected future expense arising during the employee service time. CWS' estimate is based on an actuarial forecast from Milliman. The Milliman forecast assumes that overall medical cost inflation will continue to be 10% annually for the forecast period. The Milliman analysis also reflects a unit cost per employee which DRA and CWS applied to the estimated number of employees. DRA and CWS' estimate differs because of different escalation factors and estimates for total employees in the General Office and all districts. The underlying forecast assumptions, except for the escalation factors, were accepted by DRA.

[19] Dental and Vision care inflation is forecasted at 5% each for 2011 through 2013.

4) Transportation Expense

DRA addresses Transportation Expense in Chapter 3, Operations and Maintenance Expenses, of this Report. There are no A&G expenses for this district.

5) Rent

CWS estimates rental expenses of $20,800 for Test Year 2011 and $21,300 for 2012.[20] DRA has verified the information regarding the Company's rental expense, and recommends adopting this estimate.

6) Administration Charges Transfer

Administration Charges Transfer represents credits for unregulated activity. CWS' estimate of $(200) for Test Year 2011, and $(200) for 2012, for Administration Charges Transferred based upon the last recorded year.[21] DRA reviewed CWS' workpapers and recommends adoption of these estimates for Administration Charges Transferred.

7) Workers Compensation

CWS' estimates of $26,400 in Test Year 2011 and $29,100 in 2012 for Workers Compensation are based on actuarial expectations conducted by actuaries at Milliman USA ("Milliman"). An assumption embedded in the estimate is a provision to account for Workers' Compensation to include expected future payments from current employment.[22] In other words, instead of basing the costs on the well-established "pay-as-you-go methodology" that the Commission has

[20] Refer to Report on the Results of Operation and Prepared Testimony for the Los Altos District, Chapter 6.
[21] Refer to CWS' Formal Application Workpapers for the Los Altos District, Table 6-B.
[22] Refer to General Report on the Results of Operations and Prepared Testimony, pg. 62.

consistently utilized, CWS proposes changing to an accrual basis and including the amortization of past liabilities for which payments have not yet been made.

In the prior rate case, CWS requested the same methodology change. DRA disagreed and calculated a percentage reduction at the General Office level based on the 2002-2006 average for the prior Test Year 2008-2009. The Commission similarly applied DRA's recommended reduction to all the districts in that case. In Decision 08-07-008 (pages 25-26, Section 4.7 on Workers' Compensation), the Commission upheld the use of the "pay-as-you-go methodology" for accounting for Workers' Compensation insurance costs.

For the current rate case, DRA continues to disagree with CWS' proposed change in recovery methodology and recommends continuing the "pay-as-you-go methodology" for recovering this cost. To put in perspective CWS' current proposal for Test Year 2011, on a company-wide basis, i.e., 24 districts plus General Office, CWS' total proposed Workers' Compensation is $2,747,250. This amount is almost triple the total 2008 recorded amount of $992,800 and about 70% higher than the 2004-2008 five-year average (in 2009 dollars) of $1,643,900.

DRA reviewed the recorded amounts for Workers' Compensation for this District. DRA finds the recorded amounts for 2004 to 2008 are more reflective of the "pay-as-you-go methodology" for accounting for Workers Compensation that the Commission approved in D. 08-07-008. DRA then took a five-year average of these recorded amounts, escalated the five-year average using DRA's labor escalation factors to derive its Test Year 2011 and 2012 forecasts of $25,100 and $25,100 respectively for the Oroville District.

DRA recommends adopting its estimate for Workers Compensation for the Test Year's for this District.

8) Nonspecific Expenses

Nonspecific Expenses generally represent miscellaneous administrative and general expenditures. The Nonspecific Expenses account contains various sub-accounts. However, CWS does not provide estimated amounts for each sub-account for future years. Instead, it provides a compound figure for Nonspecific Expenses that are based on historical spending levels in all sub-accounts. CWS' Nonspecific Expenses estimates for the Test Year 2011 and 2012 are $17,100 and $17,500 respectively and are based on a five-year average. DRA reviewed all sub accounts within Nonspecific expenses and adjusted some amounts for the years 2004 through 2008 under the following subaccounts: Account 792601 – Travel Meals Expense by $1,061, Account 799500 – Miscellaneous General Expense by $21,253, and Account 799501- Moving Costs by $3,276. DRA then escalated its five-year average using DRA's composite escalation factors to derive its Test Year 2011 forecast. DRA recommends adopting its Nonspecific Expenses estimate of $11,900 and $12,200 for Test Year 2011 and 2012 forecasts respectively. CWS' Nonspecific forecasts of $17,100 and $17,500 exceed DRA's estimates by $5,200 and $5,300, or 43.7% and 43.4% respectively, for Test Year 2011 and 2012. DRA's reasons for these adjustments are described below:

(a) Account 792601 – Travel Meals Expenses

DRA identified expenditures in 2004 – 2008 for Employee Celebration Day, Oroville Christmas Party, and the Christmas Dinner with Retirees. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers and removes them from DRA's estimate.

(b) Account 799500 - Miscellaneous General Expenses

DRA identified expenditures in this account from 2004 through 2008 for Moving Expenses for two employees, Employee Celebration Day, Matinee

Tickets, Oroville Christmas Party, an employee Retirement Gift, Employee Appreciation Day, and Reimbursement for Celebration Day Movies. DRA believes that the previously mentioned expenditures were of no benefit to ratepayers, and removes them from DRA's estimate.

(c) Account 799501 – Moving Costs

DRA identified expenditures in 2005 for this account for Moving Expenses for an employee. DRA believes that the previously mentioned expenditure was of no benefit to ratepayers, and removes them from DRA's estimate.

9) Amortization of Limited Term Investment

This expense pertains to the amortization of an intangible asset, such as capital planning studies. CWS estimates $31,700 for Amortization of Limited Term Investment. CWS bases its estimate from the general method for this expense shown on CWS' amortization schedule. DRA reviewed this account and recommends adopting of CWS' Amortization of Limited Term Investment estimate.

10) Dues and Donations Adjustment

The Dues and Donations Adjustment represents CWS' adjustment of non-professional dues paid historically, for ratemaking purposes. There are no dues and donations for this district.

D. CONCLUSION

DRA recommends that the Commission adopt DRA's A&G Expenses for the Oroville District.

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
At present rates				
Oper. Rev. less uncoll.	3,415.2	3,422.3		
Local Franchise Rate	0.0000%	0.0000%		
Franchise tax	0.0	0.0	0.0	0.0%
Payroll	74.3	83.7	9.4	12.7%
Benefits	403.0	443.0	40.0	9.9%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	20.8	20.8	0.0	0.0%
Admin Charges Trsf	(0.2)	(0.2)	0.0	0.0%
Worker's Compensation	25.1	26.4	1.3	5.2%
Nonspecifics	11.9	17.1	5.2	43.7%
Amort of Limited Term Inv.	31.7	31.7	0.0	0.0%
Dues & Donations Adjustment	0.0	0.0	0.0	0.0%
Total A & G Expenses	566.6	622.5	55.9	9.9%
(incl. local Fran.)	566.6	622.5	55.9	9.9%
At proposed rates				
Oper. Rev. less uncoll.	3,897.1	4,442.5		
Local Franchise Rate	0.0000%	0.0000%		
Fran. tax	0.0	0.0	0.0	0.0%
Total A & G Expenses	566.6	622.5	55.9	9.9%
(incl. local Fran.)	566.6	622.5	55.9	9.9%

CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Taxes Other Than Income for the Oroville District of California Water Service's (CWS) Test Year 2011 General Rate Case. The category of Taxes Other Than Income is comprised of ad valorem (property taxes), business license fees, local franchise fees, and payroll taxes.

B. SUMMARY OF RECOMMENDATIONS

Differences between CWS' and DRA's estimates for Taxes Other Than Income are primarily due to differences in revenue, plant and payroll estimates. The methodologies used by CWS in estimating future taxes and fees are detailed below. Anywhere DRA has made adjustments to improve the consistency or accuracy of estimates has also been noted below.

C. DISCUSSION

1) AD VALOREM TAXES

CWS estimates future ad valorem taxes using the actual ad valorem tax percentage from the last recorded year. This percentage is applied to the following year's estimated net total of utility property accounts.[23] The pro-forma ad valorem estimate is the arithmetic average of the two years. DRA accepts this methodology and notes that differences between CWS and DRA estimates are due to differences in estimations of future plant.

[23] Net Total of Property = plant + materials & supplies + construction work in progress + present value of advances – advances & contributions – deferred income tax

2) BUSINESS LICENSE and LOCAL FRANCHISE FEES

The Oroville District pays a fixed business license fee to the City of Oroville. The Oroville District does not pay a franchise tax. DRA accepts CWS' estimate for the business license fee.

3) PAYROLL TAXES

CWS estimates future payroll taxes using projected payroll amounts and the effective tax rates from the last recorded year. The three components of payroll taxes are Federal Insurance Contributions (FICA), Federal Unemployment Insurance (FUI) and State Unemployment Insurance (SUI). All three components have statutory limits governing the maximum percentage that can be collected from employers (*see table, below*).

PAYROLL TAXES		2009 MAXIMUM	EXPLANATORY NOTES
FICA	Social Security Tax	6.2%	Social Security Tax is 6.2% applied to only the first $106,800 of an employee's salary.
	Medicare Tax	1.45%	
FUI Tax		0.8%	Federal Unemployment Tax is 6.2% reduced by an offset credit of up to 5.4% for a total of 0.8% on the first $7,000 of employee wages ($56 per employee).
SUI Tax (CA)		6.3%	State Unemployment Taxes vary by company from 1.5% to 6.2% plus an Employment Training Tax Rate of 0.1% for a maximum tax percentage of 6.3%.

In general, DRA accepts the methodology utilized by CWS to estimate future payroll taxes. An adjustment was made by DRA to the imputed FICA percentage used by CWS for the Oroville District (7.72%) to coincide with the maximum tax (7.65%) that can be collected for the combined Social Security and Medicare

Taxes (see table above). All other differences between DRA and CWS estimates result from differences in estimates of future payroll.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Taxes Other Than Income that are presented in Tables 5-1.

TABLE 5-1

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Ad Valorem taxes	74.5	81.9	7.4	9.9%
Local Franchise (pres rates)	0.0	0.0	0.0	0.0%
Local Franchise (CWS prop rates)	0.0	0.0	0.0	0.0%
Social Security Taxes	47.0	53.4	6.4	13.6%
Business License (pres rates)	0.1	0.1	0.0	0.0%
Business License (CWS prop rates)	0.1	0.1	0.0	0.0%
Taxes other than income (present rates)	121.6	135.5	13.9	11.4%
Taxes other than income (CWS proposed rates)	121.6	135.5	13.9	11.4%
State Tax Depreciation	553.8	595.5	41.7	7.5%
Transp. Dep. Adj.	(28.1)	(27.9)	0.2	-0.7%
State Tax Deduct(pres rates)	525.7	567.6	41.9	8.0%
State Tax Deduct (CWS prop rates)	525.7	567.6	41.9	8.0%
Fed. Tax Depreciation (pres rates)	428.1	460.3	32.2	7.5%
State Income Tax (pres. rates)	13.1	(53.1)	(66.2)	-506.6%
State Income Tax (CWS prop rates)	55.7	37.1	(18.5)	-33.3%
Pre. Stock Div. Credit	0.0	0.0	0.0	0.0%
DPAD (pres. Rates)	(20.9)	39.6	60.5	-289.8%
DPAD (CWS prop. Rates)	(56.1)	(47.3)	8.8	-15.6%
Fed. Tax Deduct.(pres rates)	420.3	446.8	26.5	6.3%
Fed. Tax Deduct (CWS prop rates)	427.7	450.1	22.5	5.3%

CHAPTER 6: INCOME TAXES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Income Taxes for the Oroville District of California Water Service (CWS) Test Year 2011 General Rate Case. In developing its recommendations, DRA reviewed the reports, workpapers, and data responses of CWS in conjunction with information obtained from the California Franchise Tax Board and the Internal Revenue Service.

B. SUMMARY OF RECOMMENDATIONS

The majority of the differences between CWS and DRA estimates of Income Taxes are attributable to differences in estimated revenue, expenses, and rate base. Anywhere DRA has made adjustments to the estimating methodology used by CWS is detailed below. The four areas in which DRA made adjustments to CWS calculations for Oroville pertain to the: (1) federal deduction of the California Corporate Franchise Tax, (2) California Corporate Franchise Tax total percentage, (3) calculation of the interest expense deduction, and (4) domestic production activities deduction.

C. DISCUSSION

1) DRA ADJUSTMENTS

(a) Federal Deduction of California Corporate Franchise Tax (CCFT)

D.89-11-058, issued in November of 1989, required that the prior year's CCFT be used as the deduction for calculation of test year federal income taxes. As discussed throughout the decision, companies at that time were required to pay estimated California taxes one year in advance.[24] D.89-11-058 corrected the

[24] California Revenue and Taxation Code, Part 11, Chapter 2, Article 2, Section 23151(f)(2)

timing difference between when companies had previously paid California taxes and when they had realized such payment as a deduction for federal income taxes.

Since 1989, the California Tax Code has changed so that corporations are no longer required to make estimated CCFT payments to the state one year in advance. In fact, California tax law now requires corporations to compute an estimated tax "upon the basis of the net income for that taxable year."[25] As such, DRA recommends using the current year's CCFT as a deduction in the current year's calculation of federal income taxes. Differing from D.89-11-058 yet more representative of current California tax practice, DRA's methodology provides a more accurate estimate of a utility's assumed tax consequences and revenue requirements. More importantly, consistent with long-standing regulatory tradition and Generally Accepted Accounting Procedures (GAAP), the DRA methodology more closely adheres to the fundamental "matching principle," where costs incurred in a given period should be matched against the revenue or benefits received in the same period.

(b) California Corporate Franchise Tax Total Percentage

Referencing D.84-05-036 yet failing to cite the specific ordering paragraph, section, or discussion, CWS added six-basis points to the CCFT percentage used to estimate state taxes for test year and escalation years. Through data requests, review of Commission decisions, and personal interviews, DRA attempted to find some justification for CWS' inclusion of an additional 0.06% in state tax estimates. Unable to substantiate the validity of this addition, DRA removed the percentage, which reduced CCFT estimates by 0.06%.

[25] Ibid

(c) Calculation of the Interest Expense Deduction

A formula error in CWS' workpapers for calculating the Interest Expense Deduction resulted in Working Cash being subtracted from Rate Base. DRA has corrected this error in the calculation of the deduction for Oroville. The recommended Interest Expense Deduction now equals Rate Base (including working cash) multiplied by the current CWS weighted-average-cost-of-debt (3.16%).[26]

(d) Domestic Production Activities Deduction (DPAD)

Beginning in taxable year 2010, Section 199 of the IRS Code allows a deduction equal to 9% of a taxpayer's qualified production activities income (QPAI). The calculation of this deduction by CWS for Oroville assumes that all income is from qualified production activities. This assumption results in an overestimation of the allowable deduction and an underestimation of the district's assumed taxes. DRA has corrected the DPAD calculation for Oroville to incorporate only those qualifying activities into the deduction. DRA multiplies the deduction calculated by CWS by the percentage of water produced[27] in the district (a qualifying activity).

2) GENERAL INCOME TAX CALCULATIONS

In calculating income taxes, both DRA and CWS subtract common expenses from estimated revenue. For the calculation of state taxes, CWS has calculated tax depreciation amounts to reflect the required flow-through of deferred tax benefits, while federal tax depreciation amounts reflect the requirements of normalization.

[26] D.09-05-019: Base Year 2009 Cost of Capital for the three large multi-district Class A Water Utilities

[27] "produced water" and "purchased water" are the two categories of "total water" used to calculated DPAD

This methodology is consistent with the requirements of the Economic Recovery Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Tax Reform Act of 1986.

D. CONCLUSION

DRA recommends Commission adoption of DRA's estimates of Income Taxes that have been calculated and presented in Tables 6-1 and 6-2.

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2011

(PRESENT RATES)

Item	DRA	CWS		CWS exceeds DRA Amount	%
	(Thousands of $)				
Operating revenues	3,439.9	3,447.0		7.1	0.2%
Deductions:					
O & M expenses	1,377.3	1,579.4		202.2	14.7%
A & G expenses	566.6	622.5		55.9	9.9%
G. O. Prorated expenses	506.6	944.7		438.1	86.5%
Exclude GO Book Depreciation	(67.6)	(78.5)		(10.9)	16.1%
Taxes not on Income	121.6	135.5	3,203.6	13.9	11.4%
Transportation Deprec Adj	(28.1)	(27.9)		0.2	-0.7%
Interest	261.9	272.5	3,448.2	10.6	4.0%
Income before taxes	701.6	(1.2)		(702.8)	-100.2%
Calif. Corp. Franchise Tax					
State Tax Deductions	(553.8)	(595.5)		-41.7	7.5%
Taxable income for CCFT	147.9	(596.7)		(744.6)	-503.5%
CCFT Rate	8.84%	8.84%			
Additional Tax per D.84-05-036	0.0	(0.4)		(0.4)	0.0%
CCFT	13.1	(53.1)		(66.2)	-506.6%
Federal Income Tax					
Tax Depreciation	428.1	460.3		32.2	7.5%
State Corp Franch Tax	13.1	(21.1)		(34.2)	-261.4%
Pref Stock Dividend Credit	0.0	0.0		0.0	0.0%
Taxable income for FIT	260.5	(440.4)		(700.9)	-269.0%
Domestic Prod. Activities Ded.	(20.9)	39.6		60.5	-289.8%
Adjusted Taxable Income	239.7	(400.8)		(640.4)	-267.2%
FIT Rate	35.00%	35.00%			
FIT	83.9	(140.3)		(224.2)	-267.2%
Investment Tax Credit	1.5	1.5		0.0	0.0%
Total FIT	82.4	(141.7)		(224.1)	-272.0%
Total FIT & CCFT	95.5	(194.8)		(290.3)	-304.1%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2011

(AT CWS PROPOSED RATES)

Item	DRA	CWS		CWS exceeds DRA Amount	%
	(Thousands of $)				
Operating revenues	3,925.2	4,474.6		549.4	14.0%
Deductions:					
O & M expenses	1,380.7	1,586.8		206.0	14.9%
A & G expenses	566.6	622.5		55.9	9.9%
G. O. Prorated expenses	506.6	944.7		438.1	86.5%
Exclude GO Book Depreciation	(67.6)	(78.5)		(10.9)	16.1%
Taxes not on Income	121.6	135.5	3,211.0	13.9	11.4%
Transportation Deprec Adj	(28.1)	(27.9)		0.2	-0.7%
Interest	261.9	272.5	3,455.5	10.6	4.0%
Income before taxes	1,183.5	1,019.1		(164.4)	-13.9%
Calif. Corp. Franchise Tax					
State Tax Deductions	(553.8)	(595.5)		-41.7	7.5%
Taxable income for CCFT	629.7	423.6		(206.1)	-32.7%
CCFT Rate	8.84%	8.84%			
Additonal Tax per D.84-05-036	0.0	(0.4)		(0.4)	0.0%
CCFT	55.7	37.1		(18.5)	-33.3%
Federal Income Tax					
Tax Depreciation	428.1	460.3		32.2	7.5%
State Corp Franch Tax	55.7	33.0		-22.7	-40.7%
Pref Stock Dividend Credit	0.0	0.0		0.0	0.0%
Taxable income for FIT	699.8	525.8		(174.0)	-24.9%
Domestic Prod. Activities Ded.	(56.1)	(47.3)		8.8	-15.6%
Adjusted Taxable Income	643.7	478.5		-165.3	-25.7%
FIT Rate	35.00%	35.00%			
FIT	225.3	167.5		(57.8)	-25.7%
Investment Tax Credit	1.5	0.0		(1.5)	-100.0%
Total FIT	223.8	167.5		(56.3)	-25.2%
Total FIT & CCFT	279.5	204.6		(74.9)	-26.8%

CHAPTER 7: UTILITY PLANT IN SERVICE

A. INTRODUCTION

This Chapter provides DRA's recommendations related to Utility Plant in Service for the California Water Service Company ("CWS") 2009 General Rate Case ("GRC") for its Oroville District. DRA reviewed the Application, associated work papers and other submittals, the Water System and Facilities Master Plan and Urban Water Management Plan, California Department of Health Services ("DHS") inspection reports, and made a field visit to the Oroville District Customer Service & Operations Center on November 23, 2009. This Chapter represents DRA's recommendations based on its independent assessment of the CWS request.

B. SUMMARY OF RECOMMENDATIONS

CWS requests Gross Additions to Plant of $2,101,300 for Test Year 2011 and $1,746,000 for Test Year 2012. In many instances, DRA concurs with the projects submitted by CWS for 2011-2012 based on need and reasonableness. The discussion in the sections below focuses upon the exceptions and adjustments to requests in CWS' proposal.

DRA recommends Gross Additions to Plant of $924,700 for Test Year 2011 and $639,000 for Escalation Year 2012. These adjustments represent differences of 56% and 63.4%, respectively, from the CWS requested budgets. DRA's recommendations, if adopted, would provide a 65% increase over the historical average annual authorized funding level of $473,000 recorded during 2003-2008 as compared to the CWS request which represents an increase of 263% over historical levels.

1) Exceptions to 2011-2012 Specific Projects (> $100,000):

DRA recommends adjustments, advice letter treatment, or deferral to a future general rate case for some of CWS' projects. These adjustments or disallowances are described in Section C and summarized in Table 7-A.

Table 7-A
California Water Service Company
2009 General Rate Case
Oroville District
DRA Adjustments to Capital Projects
Dollars ($000)

Year	PID No.	Description	CWS ($000)	DRA ($000)	Difference $
2009	17780	Gunite Oroville Reservoir – Station 15	$ 113.4	$ 98.7	$ 14.7
2009	20767	Grove and Virginia Main Replacement	$ 262.6	$ 262.6	$ -
2010	17697	Security Mitigation Improvements	$ 103.8	$ 103.8	$ -
2010	20116	Virginia Main Replacement	$ 250.5	$ 250.5	$ -
2010	21510	Purchase Land for new well	$ 200.0	$ -	$ 200.0
2011	15056	Oak Street Main Replacemnet	$ 132.4	$ 132.4	$ -
2011	19412	Paint Station 16 Tank	$ 235.8	$ 235.8	$ -
2011	21511	Drill New Well	$ 798.3	$ -	$ 798.3
2011	25427	Tank Painting	$ 186.7	$ 186.7	$ -
2012	19960	Outfit New Well	$ 800.2	$ -	$ 800.2
2012	20790	Linden Ave Main Replacement	$ 199.8	$ -	$ 199.8
2012	20791	Wilcox Ave. Main Replacement	$ 153.7	$ 153.7	$ -
2012	21085	Pipe Raw Water Ditch at Stn. 15	$ 242.5	$ -	$ 242.5

C. DISCUSSION

1) Utility Request

Table 7-B
California Water Service Company
2009 General Rate Case
Proposed Capital Additions by Category[28]

	2011	2012	Two-Year Total	% of Request
Routine Replacement	$ 1,096,504	$ 516,000	$ 1,612,504	44%
Water Supply	$ 798,300	$ 800,200	$ 1,598,500	43%
Improve Operations	$0	$ 242,500	$ 242,500	7%
Non-Specific	$ 96,100	$ 98,300	$ 194,400	5%
Government mandates	$ 26,168	$ 26,168	$ 52,336	1%
Safety and Security	$0	$0	$0	0%
Water Quality	$0	$0	$0	0%
All Categories	$ 2,017,072	$ 1,683,168	$ 3,700,240	100%

2) Five year Average Authorized vs. Recorded

CWS' five-year average (2004-2008) recorded gross additions to plant is $473,000. The Utility proposed four-year average (2009-2012) funding level of $1,716,000 represents a 263% increase over prior recorded plant additions.

3) Specific Projects (Capital Additions greater than $100,000)

CWS proposed thirteen specific projects (projects greater than $100,000) during the period 2009 to 2012. DRA recommends adjustments to six of the thirteen projects and provides the rationale below.

(a) Gunite Oroville Reservoir (2009 Project ID Number 17780) – CWS requests $113,400 to apply new gunite to the Oroville Reservoir. According to the Capital Project Justification, this project was scheduled for

[28] Source: Results of Operation and Prepared Testimony of California Water Service Company, Oroville District, p. 27

completion during First Quarter 2009. DRA viewed the completed project during its field tour of the Oroville District and requested the actual project cost accounting during discovery. Based on the actual cost accounting, DRA recommends that this project should be adjusted to the actual recorded expenditures of $98,700.

(b) New Well (2010 Project ID Number 21510)
(Also Drill New Well (2011 Project ID Number 19960) and Equip New Well (2012 Project ID Number 19960))

DRA reviewed the Annual Inspection report provided by the California Department of Public Health[29]. DPH appraised the system and determined that:

> "It appears that the Company's source capacity, treatment capacity, and storage capacity satisfy existing and proposed Waterworks standards. The maximum day demand (5,379 gpm) can easily be met with source capacity (7,740 gpm)"

CDPH also concluded that Cal Water is in compliance with the storage capacity requirements of the Waterworks Standards. DRA requested additional information during discovery to establish the need for these projects. Based on the CWS response to the DRA Data Request, and information provided during the field tour of the Oroville district, DRA understands that CWS is withdrawing these two projects: PIDs 21510 and 19960 from this 2009 GRC proceeding. DRA recommends that the applicable expenses related to these projects should be removed from the forecasted rate base.

(c) Replace old mains and associated services on Linden Avenue – PID 20790 – CWS requests $172,200 to replace 2-inch diameter cast

[29] Fiscal Year 2007-2008 Annual Inspection for California Water Service Company, Oroville Public Water System No. 0410005, dated January 28, 2008.

iron, and 6-inch and 7-inch diameter steel claiming that they have had numerous leaks. After DRA requested additional information, DRA learned that CWS recorded the leak cause as a contractor hit (dig-in).[30] Additionally, CWS reports that there is "some pitting" of the steel, while other projects selected for replacement have "heavy pitting". This information does not convincingly demonstrate that it was the pipe condition or deterioration that presents an urgency to warrant replacement at this time. DRA recommends that this project should be deferred to a future GRC. Additionally, DRA notes that the fifty-three miles of Oroville District transmission and distribution mains experienced a leak rate less than 0.1 leaks per mile over the period January 1, 2007 through December 31, 2008.[31] In its annual inspection report, DPH noted:

> "The leak history numbers as reported are not considered to be excessive."[32]

(d) Pipe Raw Water Ditch at Station 15 (2012 Project Id Number 21085) CWS requests $242,500 to install 800 feet of 24-inch diameter raw water pipe to eliminate leakage from the open ditch that runs past a tract of new homes near Station 15. The project was scheduled for completion during first quarter 2012. CWS notified DRA during the field tour of Oroville District that this project is

[30] CWS Response to DRA Data Request JWS-003.

[31] An industry average level of leaks per mile ranges from 0.1 to 0.3 per mile according to Drinking Water Distribution Systems: Assessing and Reducing Risks (Larski, 2002). Damodaran et al. (2005) gave an industry average of 0.1 to 0.3 breaks per mile of pipe per year, such that a low break rate would cause 1 to 3 breaks per year per 1,000 people served. Accordingly, using these definitions, Oroville District's break or leakage rate would be considered a "low break rate".

[32] California Department of Health Services, Fiscal Year 2007-2008 Annual Inspection, dated January 28, 2008, page 10 of 14.

withdrawn from this 2009 GRC and will be deferred until a future GRC. Accordingly, DRA recommends that $242,500 should be removed from the forecasted rate base.

4) Specific Capital Budgets (less than $100,000)

(a) Equipment – Vehicles and Field (2009 PID 17729 and PID 17793) -- DRA recommends adjusting these items to the actual 2009 costs spent on these vehicles whose purchases were already completed during 2009. CWS requested $28,500 for the Half-ton pickup and $43,200 to replace a 6,500 pound capacity forklift. DRA recommends $33,682 and $29,543.

(b) Replace Anthracite to filters – 2010 Project ID 20602 – CWS requests $21,600 to replace six inches of anthracite for the Station 15 Filter Plant because the existing anthracite was washed away due to backwashing the filters. DRA requested additional information to substantiate the cost of anthracite. Consequently, DRA recommends that the budget request for this project should be decreased to $16,500.[33]

(c) Conversion of Flat Rate Services to Metered Services – 2010 PIDs 26248 Services $21,890, Meters $3,768 and Equipment (Field) $550; 2011 PID 26590 Services $21,890, Meters $3,768, and Equipment (Field) $510; and 2012 PID 26591 for Services: $21,890, Meters: $3,768 and Equipment (Field): $510. CWS requests $78,541 over 2010 to 2012 for converting flat rate services to metered services to meet the State of California mandate for converting all customers to

[33] CWS Response to DRA Data Request JWS-003, dated December 2009.

metered billing. DRA supports the project objectives but disagrees with placing the budgeted amounts into rates at this time. Consistent with the rate treatment proposed by DRA in each of the other CWS district plant testimony, DRA recommends that CWS be authorized to submit an Advice Letter each year at the time of the step rate increase to request recovery of these expenditures due to uncertainty on the cost and capability of CWS to ensure timely completion of this work. Based on information provided during discovery,[34] DRA notes that CWS utilized just 22% of the authorized budget to accomplish flat to metered services conversion during the years 2007-2009. Accordingly, DRA re-estimated the actual costs per meter installed based on recorded costs from 2007-2009 and recommends allowing CWS $666 per meter set and $22,000 per year to install 33 meters each year. DRA recommends that the Advice Letter cap should be set at $22,000 for each annual project.

(d) PID 20684 – Replace Pump and Add Energy Efficient Monitoring at Station 2-01 – CWS requests replacing the pump and installing new equipment to monitor energy efficiency to increase system reliability and efficiency. DRA concurs with the project objectives. However, DRA recommends that the energy efficiency monitoring work should be performed on a pilot basis on an initial basis. DRA recommends that this project should be deferred subject to CWS submitting a proposal for a pilot program for energy efficiency monitoring.

5) Carryover Projects

[34] CWS Response to DRA Data Request, MD7-005, dated October 21, 2009.

DRA reviewed the three carryover projects, one of which DRA viewed the completed project construction during the field visit of November 23, 2009. DRA does not object to recovery of the carryover project expenditures such as PID 15235 Water Supply and Facilities Master Plan and PID 16518 Station 14 improvement work. However, the PID 14726 Generator Station 14 will not be used and useful until 2013 according to information provided about in-service dates. CWS should be authorized to submit PID 14726 in the next GRC because the anticipated in-service date is 2013. DRA recommends that $132,300 should be removed from the Carryover Projects.

6) Non-Specific Capital Budgets (2009 to 2012)

CWS bases its non-specific capital budgets on a ten-year average with a 2% yearly escalation factor. DRA concurs with using a ten-year average because this method has been used in several prior general rate cases. However, DRA recommends using different escalation factors, specifically the May 2009 non-labor escalation factors provided by DRA.[35] Accordingly, DRA uses (5.5) % for 2009, (0.1)% for 2010, 2.0% for 2011 and 2.7% for 2012. With these adjustments, DRA recommends the proposed non-specific capital budgets as shown below in Table 7-C.

Table 7-C
California Water Service Company
2009 General Rate Case
Oroville District
Non-Specific Capital Budgets by Category and by Year
(Dollars)

[35] Division of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2009 through 2013 from the May 2009 IHS Global Insight U.S. Economic Outlook dated May 31, 2009.

Budget Category	2009	2010	2011	2012
Land	$ -	$ -	$ -	$ -
Structures	$ 6,521	$ 6,514	$ 6,644	$ 6,824
Wells	$ -	$ -	$ -	$ -
Storage	$ 1,323	$ 1,322	$ 1,348	$ 1,385
Pumps	$ 7,371	$ 7,364	$ 7,511	$ 7,714
Purification	$ 9,828	$ 9,818	$ 10,015	$ 10,285
Mains	$ 7,182	$ 7,175	$ 7,318	$ 7,516
Streets	$ -	$ -	$ -	$ -
Services	$ 34,493	$ 34,458	$ 35,147	$ 36,096
Meters	$ 11,624	$ 11,612	$ 11,844	$ 12,164
Hydrants	$ 2,835	$ 2,832	$ 2,889	$ 2,967
Equipment	$ 4,064	$ 4,059	$ 4,141	$ 4,252
TOTAL	**$ 85,241**	**$ 85,154**	**$ 86,857**	**$ 89,203**

D. CONCLUSION

DRA recommends that the Commission adopt the recommendations provided by DRA in this chapter to modify CWS' proposed utility plant additions.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

PLANT IN SERVICE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	14,780.6	15,616.7	836.1	5.7%
Additions				
Gross Additions	924.7	2,101.3	1,176.6	127.2%
Capitalized Interest	21.3	50.1	28.8	135.2%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(62.4)	(62.4)	0.0	0.0%
Net Additions	883.6	2,089.0	1,205.4	136.4%
Adjustments				
Gen. Plant allocated to contracts	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	(9.5)	(9.5)	0.0	0.0%
Plant in Service - EOY	15,664.2	17,705.8	2,041.6	13.0%
Weighting Factor	24.3%	24.3%		
Wtd. Avg. Plant in Service	14,985.7	16,114.7	1,129.0	7.5%

TABLE 7-2

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

PLANT IN SERVICE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Plant in Service - BOY	15,664.2	17,705.8	2,041.6	13.0%
Additions				
Gross Additions	639.0	1,746.0	1,107.0	173.2%
Capitalized Interest	21.3	39.4	18.1	85.0%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(62.4)	(64.4)	(2.0)	3.2%
Net Additions	597.9	1,721.0	1123.1	187.8%
Adjustments				
Gen. Plant allocated to contractors	0.0	0.0	0.0	0.0%
Historic Capitalized Interest	(9.1)	(9.1)	0.0	0.0%
Plant in Service - EOY	16,262.1	19,426.8	3,164.7	19.5%
Weighting Factor	24.3%	24.3%		
Wtd. Avg. Plant in Service	15,800.3	18,114.7	2,314.4	14.6%

CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE

A. INTRODUCTION

This chapter presents DRA's analyses and recommendation on Depreciation for CWS' Oroville District. Tables 8-1 and 8-2 show weighted average accumulated depreciation and amortization for Test Year 2011 and Escalation Year 2012.

B. SUMMARY OF RECOMMENDATIONS

Differences in DRA's and CWS' estimates are the result of different plant additions for the test year and the escalation year. These differences are discussed in Chapter 7, Utility Plant in Service.

C. DISCUSSION

CWS' depreciation rates for components listed in the CPUC Uniform System of Accounts for Water Utilities are based on a "Depreciation Study as of December 31, 2006" prepared by AUS Consultants dated June 21, 2007. If the depreciation rates proposed in the study are used, instead of the depreciation rates adopted in D.06-08-011, the overall composite depreciation rate for the Oroville District increases by 0.45% (from 3.06% to 3.51%) and 0.40% (from 2.99% to 3.39%) in Test Year 2011 and Escalation Year 2012, respectively.

DRA accepts the depreciation rates for accounts as provided by CWS, but recommends that DRA perform an audit of CWS' submitted Depreciation Study in the next General Rate Case. The Depreciation Study should use a 0% salvage value for small mains (<6" in diameter). This recommendation is consistent with

the procedure that CWS uses to replace these small mains, abandoning the old main in place, when it is replaced.[36]

Based on the annual depreciation rates for accounts as provided in CWS' Depreciation Study, the CWS estimates of implicit composite depreciation rates are 3.51% for Test Year 2011 and 3.39% for Escalation Year 2012. The DRA estimates of implicit composite depreciation rates are 3.54% for Test Year 2011 and 3.55% for Escalation Year 2012.[37] Differences between CWS and DRA estimates for composite depreciation rate are due to differences in Plant-in-Service estimates and subsequent differences in Beginning of Year Gross Depreciable Plant, and Depreciation Annual Accrual. Differences in Plant-in-Service estimates are discussed in Chapter 7.

D. CONCLUSION

DRA reviewed and accepts the methodologies outlined in CWS' Depreciation Study. DRA recommends an audit of CWS' Depreciation Study in the next GRC.

DRA recommends that the Commission adopt DRA's adjusted numbers for depreciation.

[36] For examples, as shown in Tab 55 of the 2009 Bakersfield District Project Justifications, the estimated cost of abandonment of 4" main is $0, this is also attached as Tab L in Appendix B to this report.

[37] Composite Depreciation Rates can be found in Workpaper 9-B2.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Depreciation Reserve - BOY	5,797.8	5,812.3	14.5	0.3%
Accruals				
Transportation Equipment	25.0	24.4	(0.6)	-2.4%
Contributed Plant	40.6	40.4	(0.2)	-0.5%
Allocated non-reg contracts	0.0	0.0	0.0	0.0%
Other Plant in Service	448.1	466.3	18.2	4.1%
Total Accruals	513.7	531.1	17.4	3.4%
Retirements	(60.9)	(60.9)	0.0	0.0%
Depreciation Reserve - EOY	6,210.0	6,242.1	32.1	0.5%
Weighting Factor	50%	50%		
Wtd. Avg. Depr. Reserve	6,003.9	6,027.2	23.3	0.4%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR 2012

	Item	DRA	CWS	CWS exceeds DRA Amount	%
		(Thousands of $)			
	Depreciation Reserve - BOY	6,210.0	6,242.2	32.2	0.5%
	Accruals				
	Transportation Equipment	26.7	26.1	(0.6)	-2.2%
	Contributed Plant	42.5	40.6	(1.9)	-4.5%
	Allocated non-reg contracts	0.0	0.0	0.0	0.0%
	Other Plant in Service	467.7	515.5	47.8	10.2%
	Total Accruals	536.9	582.2	45.3	8.4%
	Retirements	(62.5)	(62.5)	0.0	0.0%
	Depreciation Reserve - EOY	6,684.4	6,761.9	77.5	1.2%
	Weighting Factor	50%	50%		
1	Wtd. Avg. Depr. Reserve	6,426.0	6,481.7	55.7	0.9%

CHAPTER 9: RATEBASE

A. INTRODUCTION

DRA and CWS' estimates for Rate Base for Test Year 2011 and Escalation Year 2012 are discussed in this Chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends adoption of its estimates for: Plant in Service, Depreciation Reserve, and Rate Base.

C. DISCUSSION

Tables 9-1 & 9-2 show DRA's and CWS' estimates of Rate Base for Test Year 2011 and Escalation Year 2012. The significant differences between the Rate Base developed by DRA and CWS are due to the differences in the estimates for Weighted Average Plant in Service, Depreciation, Working Cash, and General Office Allocation.

D. NET-TO-GROSS MULTIPLIER

The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue. Both DRA and CWS have calculated three multipliers which reflect: 1) the increase required under 100% equity-financing where State and Federal taxes are incurred; 2) the increase required under 100% debt financing where taxes are not incurred (identical to the increase necessary to offset expenses); and 3) the increase required for additions to ratebase, which incorporates the capital structure and financing costs of the utility.[38]

[38] As adopted in Commission Decision 09-05-019

DRA and CWS use similar methodologies in calculating the net-to-gross multipliers. Calculations are shown in Table 9-3 and results are presented below. DRA's adjustment to the Domestic Production Activities Deduction (*see Chapter 5*) results in slightly higher numbers than those calculated by the company.

California Water Service Company
OROVILLE
Net to Gross Multiplier

	CWS	DRA
100% Equity	**1.61403**	**1.62955**
100% Debt (expense)	**1.00722**	**1.00722**
Ratebase Additions	**1.33113**	**1.33942**

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR 2011

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd. Avg. Plant in Serv.	14,985.7	16,114.7	1,129.0	7.5%
Materials & Supplies	87.0	87.0	0.0	0.0%
Working Cash - Lead-Lag	147.0	338.4	191.4	130.2%
Amt withheld from Employees	(1.3)	(1.3)	0.0	0.0%
Wtd. Avg. Depr. Res.	(6,003.9)	(6,027.2)	(23.3)	0.4%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	224.4	224.4	0.0	0.0%
Contributions	768.1	768.4	0.3	0.0%
Reserved Amort. Intangibles	107.9	107.9	0.0	0.0%
Deferred Taxes	814.1	814.1	0.0	0.0%
Unamortized ITC	24.4	24.4	0.0	0.0%
General Office Alloc	279.3	415.5	136.2	48.8%
Taxes on - Advances	26.6	26.6	0.0	0.0%
Taxes on - CIAC	32.4	32.4	0.0	0.0%
Average Rate Base	7,613.9	9,046.9	1,433.0	18.8%
Interest Calculation:				
Avg Rate Base	7,613.9	8,622.8	1,008.9	13.3%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0%
Interest Expense	240.6	272.5	31.9	13.3%
less Cap. Interest	21.3	0.0	(21.3)	-100.0%
Net Interest Expense	261.9	272.5	10.6	4.0%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR 2012

Item	DRA	CWS	CWS exceeds DRA Amount	%
	(Thousands of $)			
Wtd. Avg. Plant in Service	15,800.3	18,114.7	2,314.4	14.6%
Material & Supplies	87.0	87.0	0.0	0.0%
Working Cash - Lead-Lag	112.6	367.3	254.7	226.2%
Amt withheld from Employees	(1.3)	(1.3)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(6,426.0)	(6,481.7)	(55.7)	0.9%
Interest Bearing CWIP	0.0	0.0	0.0	0.0%
Advances	234.9	234.9	0.0	0.0%
Contributions	768.1	779.5	11.4	1.5%
Reserved Amort. Intangibles	139.6	139.6	0.0	0.0%
Deferred Taxes	828.6	828.6	0.0	0.0%
Unamortized ITC	22.9	22.9	0.0	0.0%
General Office Alloc	243.2	403.1	159.9	65.7%
Taxes on - Advances	22.3	22.3	0.0	0.0%
Taxes on - CIAC	31.2	31.2	0.0	0.0%
Average Rate Base	7,875.3	10,537.2	2,661.9	33.8%
Interest Calculation:				
Avg Rate Base	7,875.3	10,084.2	2,208.9	28.0%
x Weighted Cost of Debt	3.16%	3.16%	0.0%	0.0%
Interest Expense	248.9	318.7	69.8	28.0%
less Cap. Interest	14.5	0.0	(14.5)	-100.0%
Net Interest Expense	263.4	318.7	55.3	21.0%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2011
AND ESCALATION YEAR 2012

Item	DRA	CWS
1) Uncollectibles %	0.71668%	0.71668%
2) 1-Uncoll (100%-line 1)	99.28332%	99.28332%
3) Franchise tax rate	0.00000%	0.00000%
4) Local Franchise (line 3*line 2)	0.00000%	0.00000%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	0.71668%	0.71668%
8) 1-Subtotal (100%-line7)	99.28332%	99.28332%
9) CCFT (line 8 * 8.84%)	8.77665%	8.77665%
10) Domestic Production Activities Deduction *	7.24958%	8.93550%
11) FIT (line 8 minus line 9 minus line 10 * 35%)	29.13998%	28.54991%
12) Total taxes paid (ln 7+ln 9+ln 10)	38.63331%	38.04324%
13) Net after taxes (1-line 11)	61.36669%	61.95676%

Net-to-Gross Multiplier (1/line 12) = 1.62955 (DRA)
Net-to-Gross Multiplier (1/line 12) = 1.61403 (Utility)

* DRA - Line 8 minus Line 9 multiplied by 9% multiplied by percentage of Qualified Activities
CWS - only multiplies Line 8 by 9%.

This net-to-gross multiplier is to be used for changes in net revenue attributable to rate of return changes only and not to be used for rate base offsets. The net-to-gross for rate base offsets is much lower because the interest payments for the debt portion of rate base increase is tax deductible.

CHAPTER 10: CUSTOMER SERVICE

A. INTRODUCTION

DRA has reviewed California Water Service Company's ("CWS'") filing, responses to DRA data requests, and data obtained from the Commission's Consumer Affairs Branch regarding customer complaints in the Oroville District.

B. SUMMARY OF RECOMMENDATIONS

DRA finds CWS' customer service record satisfactory and the customer service process reasonable.

C. DISCUSSION

1) Customer calls and complaints

The Oroville District office handled an average of 6,000 calls per year in the last 3 years. The customer service representatives ("CSR") in the district office handle all customer complaint calls. When a customer calls the district office, the CSR logs the date and time of the call along with a description of the complaint into the Customer Service Information system. The majority of customer complaints are resolved the same day they are received. Billing questions make up a large portion of the calls received by the district office. The CSR tries to resolve the billing issue directly. However, if a resolution can not be reached, the Customer Services Manager in each district is empowered to make billing adjustments as needed.

All customer complaints filed with the Commission are sent to the CWS rates department and follow a different procedure than described above. The rates department contacts the district office to inform them of the complaint with the goal of resolving the issue within 7 days. The district office researches the complaint, contacts the customer to inform them of the investigations findings and works to reach a resolution. Then the district office submits its findings and

resolution to CWS' rates department for review. CWS' rates department then contacts the Commission's Division of Water and Audits or the Consumer Affairs branch to present the complaint findings. There was only one complaint filed by a customer with the Commission, and it was regarding billing.

2) Water Quality complaints

CWS' records indicate that the number of water quality complaints have been low relative to the number of customers in the Oroville District. An effective system is in place to receive and record customer complaints concerning water quality. Customer complaints regarding taste and odor are handled by a CSR who explains to the customer why those types of conditions occur. Other types of complaints, such as low pressure or the presence of sand in the water, require a serviceman to go out to the premises and investigate the complaint. When a service call is required, the CSR notifies the maintenance department. CWS assigns personnel to investigate the problem, notify the customer, and resolve the issue. The majority of these complaints are resolved by inspecting the premises. CWS tracks all water quality complaints in their system and records them on a monthly summary report.

Table 10-A shows water quality customer complaint data for the last three years. There are six categories for the different kinds of water quality complaints. These categories are defined as:

- Air - can be trapped in water causing a milky appearance which goes away when allowed to stand and the air goes to the surface;
- Dirty - can be discolored water or sand in the water from mainline flushing or a main break in the area;
- Noise - can be associated with the water system, such as wells turning on, or the customer's internal plumbing;
- Pressure - can be too high or too low; and

- Taste or odor - can be stronger than usual from chlorine, or a musty odor the customer is not accustomed to.

Table 10-A

Oroville District Customer Water Quality Complaints			
Type	2006	2007	2008
Air	1	0	0
Dirty water	2	2	2
Noise	3	1	1
Pressure	8	9	4
Sand	0	0	0
Taste/Odor	3	2	0
Total	17	14	7
Number of Customers	3,475	3,484	3,487
Total as % of Customers	0.5%	0.4%	0.2%

Water Quality customer complaints are low compared to the number of customers in this district. For 2008, the number of complaints is one half the number of complaints in 2007, and significantly lower than 2006. CWS is aggressively addressing these complaints and DRA finds this to be acceptable.

D. CONCLUSION

DRA recommends the Commission find CWS' customer service to be satisfactory.

CHAPTER 11: RATE DESIGN

A. INTRODUCTION

In this GRC application (09-07-001), CWS requested changes to the non-residential rate design in Special Request #6, and requested changes to the residential rate design in Special Request #11. Thus, the scope of this chapter is limited to recommendations regarding:

1) The Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts ("WRAM/MCBA"),[39]
2) Impacts of the conservation rate designs to date
3) Impacts on Low Income customer disconnections, and
4) Low income rate assistance surcharges

B. SUMMARY OF RECOMMENDATIONS

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

DRA recommends that the Commission require CWS to modify the WRAM/MCBA so that it does not disproportionately disadvantage ratepayers compared to shareholders. The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that if there are reductions in consumption, ratepayers and shareholders should split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

1) b. WRAM/MCBA surcredits should be a flat amount applied to the service charge

When there is a combined over-collection in the WRAM/MCBA, the over-collection should be passed on to ratepayers through a flat surcredit on the service

[39] Other than recommendations regarding WRAM/MCBA in DRA's special request chapters.

charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. This will enhance the conservation price signal.

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

This GRC application from CWS contains six months of consumption data after CWS implemented the rate design and WRAM/MCBA mechanism Trial Programs. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs. The Commission should evaluate the impacts of the conservation rate designs in CWS' next GRC.

3) The Commission should require CWS to monitor disconnections by month and communicate payment options to customers

The Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month. If the number of disconnections has increased, CWS should develop a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging in customers' bills and on its website explaining to customers the options that are available to them if they cannot pay their bills.

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue to provide the benefit to qualifying customers

CWS states that it proposed to increase the surcharge to fund the low-income rate assistance ("LIRA") program.[40] DRA supports an increase in the surcharge to support the forecasted participation levels in the LIRA program.

C. DISCUSSION

1) a. WRAM/MCBA Should Ensure Ratepayers Do Not Bear the Full Burden of the Economic Downturn

When the Commission adopted the WRAM/MCBA decoupling mechanism for CWS, the concept of the mechanism was to ensure a proportional impact on the utility and ratepayers when CWS implemented conservation rates. DRA's settlement with CWS, adopted in D.08-02-036 states:

> "Parties agree that the desired outcome and purpose of using WRAMs and MCBAs is to ensure that the utility and ratepayers are proportionally affected when conservation rates are implemented.
>
> a. In the context of this agreement, a proportional impact means that, if consumption is over or under the forecasted level, the effect on either the utility or ratepayers (as a whole) should reflect that the costs or savings resulting from changes in consumption will be accounted for in a way such that neither the utility or ratepayers are harmed, or benefit, at the expense of the other party."[41]

Since it is too early to evaluate quantitative usage data on the impacts of the conservation rate designs,[42] it is difficult to determine how much sales have

[40] Report on the Results of Operation, July 1, 2009.

[41] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

[42] At the time CWS filed this GRC, there were only six months of usage data after implementation of the WRAM/MCBA and rate design Trial Programs, and CWS did not provide an analysis of this usage information to determine whether the utility and ratepayers are

(continued on next page)

decreased due to the effects of conservation oriented rates. But it is unreasonable to assume that all recorded decrease in sales was entirely due to conservation oriented rates and conservation programming, as it is certain that some portion of the decrease was due to the economic downturn and other factors. Yet, as a result of the WRAM/MCBA, ratepayers are currently bearing the full cost of the economic downturn. This issue must be addressed immediately. Therefore, until the impacts of conservation efforts can be better quantified, DRA recommends that the Commission modify the WRAM so that if there are reductions in consumption, rather than ratepayers being required to pay the full difference between the authorized quantity revenue and actual quantity revenue, ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected under the WRAM/MCBA decoupling mechanism, when conservation rates are implemented in accordance with the settlement.[43]

This issue should be examined in the next GRC, when over three years of consumption information will be available after the implementation of the WRAM/MCBAs and conservation rates. However, it is clear at this time that the WRAM/MCBA mechanisms have led to an unintended consequence: the WRAM shields shareholders from all financial consequences of the severe economic downturn, while ratepayers bear the full cost of the economic downturn. This is an unintended consequence of the WRAM/MCBA trial program, not one of the goals of the program.[44]

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proportionally affected when conservation rates were implemented.

[43] Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 10, section X.2. Filed June 15, 2007, adopted in Decision 08-02-036.

[44] The goals of the WRAM/MCBA mechanism trial program were three-fold:

a)"Sever the relationship between sales and revenue to remove any disincentive for the utility to implement conservation rates and conservation programs

(continued on next page)

While there is not currently a method available to apportion reductions in usage to each different cause – such as conservation and changes in economic conditions, it is clear that there are different factors that can affect water usage and each of them contribute to usage reductions. This is contrary to the WRAM/MCBA, which compensates CWS for all of the reductions in consumption, not just usage reductions from conservation. The Commission should modify the WRAM/MCBA mechanism so that it does not disproportionately disadvantage ratepayers compared to shareholders.

Further, the Commission specifically addressed the possible impact of a WRAM/MCBA for California American Water Company during an economic downturn in decision 08-06-002, p. 16, which stated:

> "One disparate impact that could occur in the Pilot Program period would be a severe economic downturn in one or more of the Los Angeles service areas that causes a significant decrease in revenues. This could occur from a high rate of home foreclosures and/or business slowdowns or shutdowns. We find this would clearly be a disparate impact as the WRAM mechanism would shield shareholders from all financial consequences of the economic downturn while requiring ratepayers to bear the full cost. Since Cal-Am will be tracking sales levels by customer class and service area, any disparate impact can be quickly seen and addressed."

CWS tracks sales levels by customer class and service area; and it is possible to calculate and graph changes in consumption in different classes and service areas. However, it is much more complex to determine or even speculate about the reasons for the changes in consumption. Especially because of the

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(continued from previous page)
b)Ensure cost savings resulting from conservation are passed on to ratepayers.

c)Reduce overall water consumption by Cal Water ratepayers." (see the Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, p. 8, section VI.1. Filed June 15, 2007, adopted in Decision 08-02-036).

significant economic downturn in recent years, that happens to coincide with implementation of increasing block rates, makes it difficult to draw conclusions about the reasons for any changing consumption patterns. Also, all CWS' districts undercollected revenue in the WRAM account during July – December 2008, except Bakersfield, King City, and Palos Verdes.[45] This is an indication that sales were lower than forecasted for almost all districts during this timeframe.

The WRAM should no longer require ratepayers to pay the full difference between the authorized quantity revenue and actual quantity revenue. The Commission should modify the WRAM/MCBA so that ratepayers and shareholders split this difference equally. This will ensure that ratepayers and shareholders are proportionally affected when conservation rates are implemented.

1) b. WRAM/MCBA Surcredits Should Be a Flat Amount Applied to the Service Charge

When there is a combined under-collection in the WRAM/MCBA, this should be recovered from ratepayers through volumetric surcharges, in accordance with Decision 08-02-036. This maintains the conservation price signals of the surcharge because customers who use more water pay a larger portion of the surcharge. However, when there is a combined over-collection in the WRAM/MCBA, this should be passed on to ratepayers through a flat surcredit on the service charge. This change to the surcredit mechanism will ensure that water-conserving customers who use less water do not receive less surcredit than customers who use large quantities of water. Furthermore, this will also enhance the conservation price signal.

This recommendation is important in light of the first six months of WRAM/MCBA and Rate Design Trial Program implementation where the over and under-collections in the net balance of the WRAM/MCBA typically were far

[45] CWS WRAM/MCBA report to the Division of Water and Audits, March 2009

greater than the 2.5%[46] trigger. In fact these balances were 10% or greater in seven districts, and were between 5% and 10% in another seven districts.[47]

2) Not Yet Enough Data to Determine Impacts of Conservation Rate Designs

DRA and CWS reached a settlement agreement on rate design and revenue decoupling on April 23, 2007, and amended the settlement on June 15, 2007. The Commission ultimately adopted the settlement on February 28, 2008 in decision 08-02-036, and CWS had 90 days after the Commission decision adopting the settlement before the Trial Program became effective. CWS implemented the Trial Program, including the WRAM/MCBAs and conservation rate designs, via Advice Letter 1855, which became effective on July 1, 2008. CWS filed this GRC application in July 2009, and included data through December 2008. Thus, this GRC contains six months of consumption data after CWS implemented the WRAM/MCBA mechanisms. Six months of consumption data is not long enough to draw conclusions about the impacts of the conservation rate designs.[48]

3) CWS should track low income disconnections on a monthly basis and provide this information in its annual report to the Commission on the WRAM/MCBA balances

Ordering Paragraph 6 from the Phase 1A Decision 08-02-036 from the conservation OII (I.07-01-022) ("OP6") requires CWS to provide data related to the implementation of the conservation rate design trial programs. Specifically, OP6 states:

> "6. Suburban, Park, and CalWater shall provide the following information in their next general rate case: monthly or bimonthly (depending upon the billing

[46] The trigger is "2.5% of the district's total recorded revenue requirement for the prior calendar year" (see Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues, Section IX 3) d., Filed June 15, 2007, adopted in Decision 08-02-036.

[47] See CWS WRAM/MCBA report to the Division of Water and Audits, March 2009.

[48] See Special Request #11 for further discussion.

> cycle) … increase or decrease in disconnecting low-income program participants for nonpayment by district after adoption of conservation rate designs; increase or decrease in low-income program participation by district after adoption of conservation rate designs; increase or decrease in residential disconnections for nonpayment by district after adoption of conservation rate designs…."

In this GRC application, CWS provided some of the information required in this Ordering Paragraph.[49] In particular, CWS provided information on customer disconnections for both residential and LIRA customer groups for the firs six months of Trial Program implementation between July 1, 2008 and December 31, 2008. However, this data incorrectly "double-counted" low income customer disconnections.[50] CWS provided corrected data for July 2008 through July 2009. However, CWS did not yet provide information about customer disconnections prior to July 2008.[51] In order for the Commission to assess the "increase or decrease" in low-income disconnections when CWS implemented the conservation rate design and WRAM/MCBA Trial Programs, pursuant to the above Ordering Paragraph, data on customer disconnections from before and after the implementation of the conservation rate designs must be compared. Since CWS only provided information from after the implementation of conservation

[49] Prepared Testimony of David Morse, p. 28 – 31.

[50] Email from CWS (Tu Rash), on 1/13/2010, states regarding the query Cal Water originally ran for Dave Morse "in effect that query double counted the number of LIRA customers."

[51] DRA requested information on residential and LIRA customer disconnections from July 2007 through July 2009 in LWA-5 on 12/22/09, and CWS provided an initial response on 12/31/09, but it did not correspond to the numbers in David Morse' testimony, so CWS provided a revised response on 1/5/2010, but this still did not correspond to the numbers in David Morse' testimony. CWS provided a further revised response on 1/13/2010, but this only provided data from 2008-2009. At the time DRA had to finalize this testimony, it had not yet received final numbers for residential and LIRA customer disconnections from July 2007 through 2009, although DRA is confident CWS would have provided the information to comply with this ordering paragraph had there been unlimited time.

rate designs, this is not in compliance with OP 6. DRA believes CWS intended to provide the correct information and CWS should provide this information in its rebuttal testimony so that the Commission can consider it in this proceeding.

On a going forward basis, the Commission should require CWS to continue to track the number of residential and LIRA customer disconnections per month and report this information in the annual report that CWS submits to the Commission by March 31 each year regarding WRAM/MCBA balances.[52] If the number of disconnections has increased, CWS should develop and implement a low-cost customer communication plan to reduce the number of disconnections. In particular, CWS should place messaging on customer bills and on CWS' website explaining to customers the options that are available to them if they cannot pay their bills. For example, PG&E has a message on its website that says:

> "We Know Times Are Tough.
> If you or someone you know is having trouble paying your bill, we can help. Please call us today at 1-800-743-5000 so we can discuss program options and payment arrangements that work for you."[53]

Another example is San Diego Gas and Electric Company, which has messaging on its website that provides a rotational link to "Need Extra Help With Your Bill? Learn about available assistance" and "Get extra help with your bill."[54]

4) The Commission should authorize CWS to increase the surcharge for the low-income rate assistance program as necessary to continue the benefit for qualifying customers

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[52] Pursuant to "Amended Settlement Agreement between The Utility Reform Network, The Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues," section IX 3), Filed June 15, 2007, adopted in Decision 08-02-036.

[53] http://www.pge.com/myhome/ (accessed 1/28/2010).

[54] http://www.sdge.com/index/ (accessed 1/28/2010).

CWS states that it proposed to increase the surcharge to fund the low-income rate assistance ("LIRA") program.[55] The Commission authorized the LIRA program in D.06-11-053, and it provides a 50% discount on the service charge to qualifying households. DRA supports the continuation of the LIRA program as authorized in D.06-11-053. To the extent that an increase in the surcharge is necessary to support the LIRA program at forecasted participation levels, the Commission should authorize the increase in the surcharge. DRA notes that this surcharge is combined with the surcharge for the Rate Support Fund ("RSF") and that CWS' requested increase from $0.009 to $0.015 per ccf[56] also includes the additional funding to support CWS' increases in the RSF subsidies. For this reason, the required increase in the surcharge to support only the LIRA program should be lower than $0.015 per ccf and should be calculated based upon the final revenue requirement in this case as well as the adopted rate of participation in the LIRA program.

D. CONCLUSION

The Commission should adopt the recommendations on rate design and revenue decoupling included in this chapter.

[55] Report on the Results of Operation, July 1, 2009, Chapter 12 "Present and Requested Tariffs" states that customers pay a surcharge of $0.009 per Ccf to fund the program and that CWS proposes to increase the surcharge to $0.015 per Ccf.

[56] Additional Prepared Testimony of Thomas Smegal, Special Request 11, p. 15, lines 21-22.

CHAPTER 12: WATER QUALITY

A. INTRODUCTION

The Rate Case Plan requires water utilities to submit information about water quality in their GRC applications. This Chapter presents DRA's review of water quality submittals by California Water Service Company ("CWS") for the Oroville District and CWS' response to DRA's data request.

The California Department of Public Health ("CDPH") is the primary agency responsible for ensuring that the water provided to the public by the District is safe for consumption. DRA solicited and received input from the CDPH on the District's water quality issues and compliance status.

B. SUMMARY OF RECOMMENDATIONS

Based upon the information provided by the company and by the CDPH, CWS' Oroville District appears to be in compliance with all applicable water quality standards and requirements. Exceptions if any are noted below.

C. DISCUSSION

The Oroville District has four active groundwater wells and one surface water treatment plant. The District has not exceeded any primary or secondary Maximum Contaminant Levels ("MCLs") since the last general rate review.

However, CWS reports that Well 010-01 has boron levels ranging between 1.1 and 1.5 mg/L which are over the notification level (1 mg/L).[57] There is no MCL established for boron and CWS does not have any treatment plan for Well 010-01.

[57] CWS' response to DRA's data request PPM-001, Item 10.a.

Well 005-01 has tetrachloroethylene ("PCE") level ranging between 0.7 and 1.4 ug/L and stable. The primary Maximum Contaminant Level for PCE is 5ug/L and CWS also has no treatment plan for this well.[58]

CWS reports that it is in the middle of Long-Term Two Surface Water Treatment Rule ("LT2SWTR") monitoring, with an expected completion date of December 2010.[59] LT2SWTR sampling for the Oroville District is from the two surface water sources, the state canal from Lake Oroville and the Cherokee Canal from PG&E water.[60] The results of the sampling (for cryptosporidium, E. coli, and turbidity) will determine the District's bin classification for potential additional treatment requirements.

The CDPH, in response to DRA's inquiry, confirms that the District is in compliance with all applicable water standards.[61]

D. CONCLUSION

Based on the information reviewed, it appears that CWS' Oroville District is in compliance with all applicable water quality standards and requirements.

[58] Ibid.

[59] Testimony of Chet Auckly (Water Quality), page 32.

[60] CWS' response to DRA's data request PPM-001, Item 9.b.

[61] November 30, 2009 email communications from Richard Hinrichs of CDPH to DRA.

CHAPTER 13: STEP RATE INCREASE

A. FIRST ESCALATION YEAR

On or after November 1, 2011, the Commission shall authorize CWS to file a Tier 1 advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2012 or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2011, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-B.

The Commission's Water Division ("Water Division") should review the requested step rates to determine their conformity with this order, and the requested step rates should go into effect upon the Water Division's determination of compliance. The Water Division should inform the Commission if it finds that the proposed rates do not comply with this Decision. The Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than January 1, 2012. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second year, the Commission should grant an attrition adjustment for the revenue requirement increases attributable to expense increases due to inflation and rate base increases that are not offset by revenue increases. The revenue changes shall be calculated by multiplying forecasted inflation rate and operational attrition plus financial attrition times adopted rate base in 2012 times the net-to-gross multiplier.

C. ESCALATION YEARS INCREASES

The table below shows the Summaries of Earnings for Escalation Years 2012 and 2013. To obtain the increases in these years, D. 04-06-018 and D. 07-05-062 require water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 12-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

SUMMARY OF EARNINGS

CALIFORNIA WATER SERVICE COMPANY
OROVILLE DISTRICT

Item	DRA 2011 (Thousands of $)	DRA 2012	% increase	
Operating revenues	4,066.3	4,181.5	2.8%	Esc. Factor
Operation & Maintenance	1,403.6	1,440.1	2.6%	1.026
Administrative & General	571.5	585.2	2.4%	1.024
G.O. Prorated Expense	510.1	523.4	2.6%	1.026
Depreciation & Amortization	467.7	479.9	2.6%	1.026
Taxes other than income	125.3	128.6	2.6%	1.026
State Corp. Franchise Tax	63.4	66.6	5.1%	
Federal Income Tax	249.0	259.6	4.3%	
Total operating expenses	3,390.6	3,483.3	2.7%	
Net operating revenue	675.7	698.1	3.3%	
Rate base	7,875.3	8,136.7	3.3%	
Return on rate base	8.58%	8.58%	0.0%	

APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PATRICK E. HOGLUND

Q1. Please state your name and business address.

A1. My name is Patrick E. Hoglund. My business address is 505 Van Ness Avenue, San Francisco, California.

Q2. By whom are you employed and in what capacity?

A2. I am employed by the California Public Utilities Commission – Division of Ratepayer Advocates (DRA) Water Branch - as a Senior Utilities Engineer.

Q3. Please briefly describe your educational background and work experience.

A3. I am a graduate of the University of California, Berkeley, with a Bachelor of Science Degree in Industrial Engineering and Operations Research. I am also a graduate of the University of Rochester, William E. Simon School of Business with a Master of Business Administration Degree with concentrations in Finance and Corporate Accounting. I am a licensed professional Industrial Engineer.

I have been employed by the California Public Utilities Commission since 2005. Currently I work on Class A water General Rate Cases. From July 1999 through August 2004, I was a Senior Rates Analyst at Pacific Gas and Electric Company, where I worked on a variety of revenue requirements issues related to natural gas. From 1990 through 1997, I was employed by the California Public Utilities Commission. During this time I worked on small water utility rate cases, large water utility rates cases, and also worked in the Telecommunications and Energy Branches of the former Commission Advisory and Compliance Division, as well as in DRA.

Q4. What are your responsibilities in this proceeding?

A4. I am the Co-Project Manager for this proceeding with overall responsibility for twelve CWS Districts: Bear Gulch, Chico, Dixon, Livermore, Los Altos, Marysville, Mid-Peninsula, Oroville, Redwood Valley, South San Francisco, Stockton, and Willows. I am also responsible for the Executive Summary, Chapter 1-Overview and Policy, and Chapter 13-Step Rate Increase of the district reports.

Q5. Does this conclude your prepared testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
LISA BILIR

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Lisa Bilir and my business address is 505 Van Ness Avenue, San Francisco, California, 94102. I am a Public Utilities Regulatory Analyst V in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your education background and professional experience.

A.2 I received my Bachelor of Science degree in Biological Sciences from Stanford University in 2001 and a Master of Public Policy from The Goldman School of Public Policy at U.C. Berkeley in 2007.

From August 2006 to June 2007 I worked in the Water Branch of DRA as a graduate student intern. I have been a full-time staff member in DRA since October 2007. Since then I completed a settlement with California-American Water's (CAW) Los Angeles district and the City of Duarte on conservation rate design and revenue decoupling issues. I was DRA's project manager for CAW's conservation application for the Monterey District, where I completed settlements with CAW and Monterey Peninsula Water Management District on conservation programs and plans. I also submitted testimony in CAW's Monterey District GRC regarding conservation rate design and revenue decoupling issues and reached a settlement on that issue. In addition, I completed a settlement with San Gabriel Valley Water Company (SGVWC) in May 2008 regarding an interim budget and funding mechanism for conservation programs in its Fontana Water Company Division. I am DRA's project manager for SGVWC's conservation application A.08-09-008 and submitted testimony regarding rate design, revenue decoupling and reporting requirements in that proceeding.

Q.3 What is your responsibility in this proceeding?

A.3 I am responsible for the chapters on Rate Design, and Special Requests 1, 6, 11, 12, 13, 15, and 29 and I am a co-author for the chapters on Revenue and Special Request #28. For the Revenue chapters, I am primarily responsible for the number of customer and revenue calculations; for the Special Request #28, I am responsible for the portion of the chapter other than the Introduction and discussion of an OIR.

Q.4 Does this conclude your prepared direct testimony?

A.4 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
ZACHARY BURT

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Zachary Burt and my business address is 505 Van Ness Avenue, San Francisco, CA 94102. I am an intern in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your education background and professional experience.

A.2 I received a dual bachelor's degree in Economics and Chemistry from the University of California at Berkeley in 2001. I received a Master's of Science from the Energy and Resources Group at U.C. Berkeley in May, 2009, and am continuing on to pursue a PhD in the same program as of Fall 2009. My program of study focuses on the economics of water, including demand management, conservation pricing and water services treatment and provision. In DRA, I analyzed and made recommendations on Golden State Water Company's conservation rate designs and reached a settlement with Golden State Water Company in that case. I also wrote testimony and testified orally on San Gabriel Valley Water Company's conservation rate design proposals.

Q.3 What is your responsibility in this proceeding?

A.3 I am a co-author of Chapter 2 on Revenues, and am primarily responsible for the sections regarding sales forecasts.

Q.4 Does this conclude your prepared direct testimony?

A.4 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
RAYMOND YIN

Q1. Please state your name, business address, and position with the California Public Utilities Commission (The "Commission").

A1. My name is Raymond Yin and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Public Utilities Financial Examiner in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from San Francisco State University, with a Bachelor of Science Degree in Accounting. I am a Certified Public Accountant in the State of California. I have been employed by the Commission since January 2008. Previously I was employed by the California State Department of Health Care Services. I have been a tax witness on the following Class A water utilities' General Rate Cases: Suburban Water Systems, Park Water Company, San Jose Water Company, and California American Water Company.

Q3. What is your responsibility in this proceeding?

A3. I am a witness for this proceeding and responsible for Chapter 3 –Operation and Maintenance Expenses for the following districts: Chico, Dixon, Marysville, Oroville, Redwood Valley, Stockton, and Willows.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEASON D. WILLIS

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Cleason D. Willis and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Regulator Analyst in the Water Branch of the Division of Ratepayer Advocates (DRA).

Q2. Please summarize your education background and professional experience.

A2. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Masters of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic and reasonableness analysis for various electrical, gas, water, and telecommunications operations. I have written reports and testified regarding the validity of my findings and recommendations concerning my analysis for various utility proceedings.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Chapter 4 - Administrative and General Expenses for the following California Water Service Company's northern districts: Bear Gulch, Chico, Dixon, Livermore, Los Altos, Marysville, Mid-Peninsula, Oroville, Redwood Valley, South San Francisco, Stockton, and Willows.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
K. JERRY OH

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is K. Jerry Oh and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Financial Examiner IV in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Arts in Business Economics.

Q3. Briefly describe your professional experience.

A3. I have been employed by the Commission since February 2000. While at the CPUC, I have conducted audits of water and energy utilities, managed contract auditors, and reviewed energy procurement costs. For the past three years, I have worked on different areas of a water utility's GRC.

Q4. What is your responsibility in this proceeding?

A4. I am responsible for review of the Affiliate Transaction of CWS, General Office Cost Allocation, Taxes for the Bear Gulch, Chico, Dixon, Livermore, Los Altos, Marysville, Mid-Peninsula, South San Francisco, Oroville, Redwood Valley - Coast Springs, Redwood Valley - Lucerne, Redwood Valley - Unified, Stockton, and Willows districts, and Special Request 3.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
JOYCE W. STEINGASS, P.E.

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Joyce W. Steingass. My business address is 505 Van Ness Avenue, San Francisco, California. My job title is Senior Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I am a graduate of the University of California, Berkeley, with a Bachelor of Science Degree in Mechanical Engineering. I am a licensed professional Mechanical Engineer in the State of California. Employed by the California Public Utilities Commission since 2005, I have testified for the Division of Ratepayer Advocates in General Rate Cases involving several Class A water utilities including California Water Service Company and California American Water Company. From 2003 through June 2005, I was a Senior Associate for Barrington-Wellesley Group, Inc. a general management consulting firm serving electric, gas, water, and telecommunications industries, where I was engaged by public utility commissions to perform regulatory investigations related to operations or tariff requirements. From 1999 through 2002, I was employed by Navigant Consulting Inc., as a senior engagement manager, I provided management consulting in process improvement or regulatory support for utility clients. Prior to 1999, I was employed for seventeen years by Pacific Gas and Electric Company where my most recent position was the Director of Distribution Quality Assurance, in charge of audits related to gas and electric distribution operations. I was also the Pipeline Replacement Superintendent for PG&E's San Francisco Division for three years. That project entailed replacement of cast iron and pre-1930s steel natural gas distribution pipelines.

Q3. What is your responsibility in this proceeding?

A3. I am witness responsible for Utility Plant in Service, Depreciation Expenses and Ratebase for Chico District and Oroville District.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
RICHARD RAUSCHMEIER

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Richard Rauschmeier and my business address is 505 Van Ness Avenue, San Francisco, California. I am an Auditor in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your educational background.

A2. I graduated from The Johns Hopkins University with a Bachelor's degree in Environmental Science, concentrating in chemistry and water treatment. In 2000, I earned a Masters of Science from Purdue University. In 2008, I completed training and successful examination for certification as both a Water Treatment and Distribution Operator in California under the State's Department of Public Health.

Q3. Briefly describe your professional experience.

A3. For more than 10 years, I have worked as an employee or consultant assisting organizations develop efficient and effective business policies and practices. In December of 2008, I joined the California Public Utilities Commission as an Auditor.

Q4. What is your responsibility in this proceeding?

A4. I am sponsoring the calculation of Net-To-Gross Multipliers of all districts (see Chapter 9), as well as, DRA's testimony in Chapter 5 (Taxes Other Than Income) and Chapter 6 (Income Taxes) for the 12 districts (Antelope Valley, Bakersfield, Dominguez, East Los Angeles, Hermosa-Redondo, Kern River, King City, Palos Verdes, Salinas, Selma, Visalia, and Westlake).

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
TONI CANOVA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Public Utility Regulatory Analyst in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for over six years. I have testified before the Commission in General Rate Cases involving several Class A water utilities including California Water Service Company and Park Water Company. Previously, I was employed by the State of Washington's Department of Ecology for 10 years.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for testimony in Chapter 10 – Customer Service, and for the Result of Operations tables for the twelve northern districts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
PAT MA

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Pat Ma and my business address is 505 Van Ness Avenue, San Francisco, California 94102. I am a Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates (DRA).

Q2. Please summarize your education background and professional experience.

A2. I received a Bachelor of Science Degree in Industrial Engineering with a concentration in Management from San Jose State University in 1986. In December 2008, I rejoined the Commission as a Utilities Engineer in the DRA's Water Branch. My previous professional position was as a Senior Utilities Engineer at the Commission, where I worked from 1986 to 1999 in transportation, telecommunications, energy and water areas. I received my Professional Engineer License in Industrial Engineering in the State of California in 1989 and also worked briefly for the U.S. EPA, Region 9 as an Environmental Engineer in 1989.

Q3. What is your responsibility in this proceeding?

A3. I am a witness for this proceeding and responsible for Chapters 3 - Operations and Maintenance Expenses for California Water Service Company's Bear Gulch, Livermore, Los Altos, Mid Peninsula and South San Francisco districts and Chapter 12 - Water Quality for its twelve northern districts.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.